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VFC - Q2 2012 VF CORP Earnings Conference Call

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## OVERVIEW:

VFC reported 2Q12 revenues growth of 16% and adjusted EPS of \$1.11. Expects 2012 adjusted EPS to be \$9.50 and 2H12 organic revenue growth to be 6-7%, in constant dollars.



## CORPORATE PARTICIPANTS

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

**Steve Rendle** *VF Corporation - VP*

**Karl Heinz Salzburger** *VF Corporation - President, VF Europe, Middle East, Africa, Asia*

**Scott Baxter** *VF Corporation - President, VP Imagewear*

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## PRESENTATION

### Operator

Good day and welcome to the VF Corporation second-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.

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### Jean Fontana - VF Corporation - IR - ICR

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

Before we begin I would like to remind participants that certain statements included in today's remarks and the Q&A session may constitute forward-looking statements within the meaning of the Federal Securities laws. Forward-looking statements include Management's current expectations, estimates, and projections about business and results of operations and the industries in which VF operates. Actual results may differ materially from those projected in the forward-looking statements. Important factors that could cause actual results to differ materially from those projected in the forward-looking statements are discussed in the documents filed with the Company and the SEC. I would now like to turn the call over to Eric Wiseman.



**Eric Wiseman** - VF Corporation - 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. If there's one message I'd like all of you to take away from today's call and release, it's this -- VF is delivering.

VF is delivering revenue growth. For the first half we've grown organic revenues by 8%, or 10% in constant dollars, and we remain very comfortable holding to our guidance for 8% organic top-line growth in constant dollars for the full year, given the current environment. And VF is delivering international growth. In the face of very well-publicized concerns about conditions in both Europe and more recently China, in the first half of 2012, international organic revenue growth in constant dollars was 15%. So we're tracking right on plan with our goal of delivering 15% organic growth internationally in constant dollars this year.

Let me add a little bit more context here. In Europe, there is no doubt that conditions have weakened since last year, which is why we planned for lower growth this year. So how are we doing? In the first half, VF's European organic revenue growth in constant dollars was 14%. Since the beginning of the year, we've talked about low double-digit growth in Europe this year, and we're sticking to that plan today. Now, we share everyone's concerns about conditions in Europe. And to be sure, we're seeing our share of both successes and challenges; but in total, VF is clearly benefiting from having a diversified portfolio of brands. We're continuing to monitor conditions there very carefully, and are prepared to course correct as needed should conditions change materially.

In terms of Asia in the first half, organic revenues grew by 19% in constant dollars. And in China, we grew revenues by 25% on a constant dollar basis. For the full year, we remain committed to growth of over 20% in Asia. Each of our major brands -- Lee, The North Face, Timberland, Vans, and Kipling -- is looking forward to strong double-digit growth despite overall slowing of the Chinese economy this year.

So how else is VF delivering? Last year, VF acquired the Timberland company, the largest acquisition in our 113-year history. Today, we confirmed our expectation for \$1.10 accretion in earnings per share from Timberland in 2012. I'm often asked what surprised me, either positively or negatively, about Timberland in the 10 months since we acquired it, and my answer is always the same -- I've been really pleased with the depth of footwear product knowledge and innovation that resides within Timberland. I've been positively surprised by the amount of cost synergies we've identified, which points to more value creation for our shareholders in the future. And, I've been positively surprised by, and most appreciative of, the ability of the people at Timberland and Smartwool to embrace change -- a lot of change -- and their commitment to achieving our shared vision for success.

Finally, I'd like to point out that VF is delivering -- actually overdelivering -- on our earnings per share goals this year. In February, we established \$9.30 per share as our target for EPS. In April, we raised that to \$9.45; and today, we raised that again to \$9.50. What's the backstory to this performance? In short -- people, portfolio, and platforms. We're proud of the great talent we have across our brands, with associates around the world committed to winning in any environment. We're clearly benefiting from our diversified portfolio of great brands that, particularly in times like these, help us manage risks while maximizing opportunities. And we are also clearly benefiting from well-established global platforms that allow us to leverage opportunities and share synergies across multiple brands.

We are thrilled with our strong performance year to date. We're also keenly aware of the many challenges posed by continuing slowdown in global economic conditions. We're scrutinizing costs across the board. And, as you saw today, we're keeping inventories very tightly controlled. At the same time, challenging conditions offer great opportunities for strong companies with strong brands to invest and gain market share. So we're continuing to invest in our highest-growth, most-profitable brands and businesses to support our top and bottom line momentum.

In short, we believe we are exceptionally well positioned to navigate through these uncertain times and look forward to delivering another year of record results to our shareholders. And, with that, I'd like to turn the call over to Steve Rendle, who will review the second-quarter performance of our top Outdoor and Action Sports brands. Steve?



**Steve Rendle** - *VF Corporation - VP*

Thank you, Eric. Second-quarter global revenues for The North Face were up 14%, or 16% on a constant dollar basis, including a 9% increase in the brand's D2C business. We've seen solid sell-through of seasonal products across the majority of our regions and channels, and consistent with what we said 90 days ago, global fall order books for The North Face are up low double digits against same period last year. In the Americas region, The North Face brand's second-quarter revenues were up mid-teens, driven by strong spring and early fall wholesale shipments, new product introductions, and in-store support at key accounts.

On our last call, I detailed the key growth strategies for The North Face in 2012. So I wanted to take a minute or two to highlight a few of these strategies in action. Job one is delivering the most innovative outdoor products in the industry, and we're hard at work doing just that. Following strong fall sell-in around three product initiatives -- flash dry apparel, footwear created with our new Cradle technology, and the athlete-tested Meru Kit of outerwear and apparel -- we are excited about the opportunities to amplify the brand's unique technology stories to better connect these products with consumers.

We've also begun to see measurable success around the brand's activity-based model, designed to extend the brand into areas complementary to its historically strong position in the outdoor industry. Within our own stores, our technical running apparel has been up 18% in the quarter, and our training yoga apparel was up 21% during the quarter, while mountain bike apparel continues to gain significant traction among both existing and new dealers and consumers. We're definitely just getting started, and we're very excited about what's in the pipeline.

At the heart of The North Face brand is our athlete-tested expedition-proven storytelling abilities that connect our brand more deeply with our consumers. This May, with live online and interactive updates, six North Face athletes successfully summited Mount Everest, generating 350 million impressions through social media and PR efforts. The National Geographic-sponsored expedition included working with on-mountain North Face product engineers and physicians from the Mayo Clinic to study the effects of the unique environment on the body and mind. These findings will be applied to future products, allowing us to push the boundaries of human performance even further in 2013 and beyond. In our D2C business, we launched a new The North Face iPhone/Android app, which gives consumers access to the latest product, news, blogs, expedition videos, and a store locator to inspire and equip their next adventure. Additionally, we also added in-store inventory visibility now available at TheNorthFace.com for all products.

To wrap up, looking at the second half of the year, with a strong global order book in front of us, driven by some of the most innovative product we've ever created, we're confident in our ability to deliver our full-year goal of mid-teen, constant dollar growth approaching \$2 billion in global sales. To talk about The North Face's international business, here's Karl Heinz Salzburger.

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**Karl Heinz Salzburger** - *VF Corporation - President, VF Europe, Middle East, Africa, Asia*

Thanks, Steve, and good morning, everyone. Following very strong performance in the first quarter, The North Face International business continued its momentum in the second quarter with mid-teen constant dollar growth in Europe and high-teen growth in Asia. We are continuing to expand our D2C presence in Europe with the launch of new websites in Italy and Spain, bringing our total e-commerce presence to eight countries and driving a 75% increase in online revenues. These sites, along with Ireland, Germany, Austria, and the Netherlands, which expects to go live in the second half of the year, position us well for the coming fall and winter seasons.

In the quarter, we opened our first store in Warsaw, which represents a great opportunity to expand the brand in Eastern Europe. Conditions on the wholesale side of the business are consistent with what we discussed in the first quarter, with retailers remaining cautious and committing to orders later than usual. The North Face continues to gain market share in Europe, and we are confident that we are extremely well positioned to compete successfully, even in today's difficult environment. As in US, we are using high-profile events to tell our brand story and engage consumers across each pillar of the brand's activity-based model. Examples include the famous Ultra Trail Du Mont Blanc race where runners tackle 168 kilometers around Mont Blanc with over 9,600 meters of altitude gain. And in September, The North Face is sponsoring the Kalymnos Climbing Festival in Greece, where an estimated 700 to 800 climbers will participate alongside our athletes -- exactly the types of events and experiences you'd expect from The North Face brand.



The North Face in Asia also continues to see great momentum. During the quarter, we established a cross-functional digital team to implement a new e-commerce desk in China this fall, expanding our D2C reach. We're also focusing significant efforts around brand building to increase consumer awareness, great example being a newly launched Go Outdoors video series, which so far has been viewed more than 12 million times online. Certainly there is concern around slower economic trends in China, but great brands like The North Face have plenty of opportunities to continue to grow. Now, let's move on to Vans. Steve?

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**Steve Rendle** - *VF Corporation - VP*

Last month in New York, we held an investor day highlighting Vans 2016 plan, which set the goal of adding \$1 billion in revenues to our 2011 base of \$1.2 billion. At the meeting we ran through four key growth drivers -- product innovation; consumer connectivity; D2C growth; and geographic expansion. The second quarter for Vans was a great example of each of these strategies in action. Global revenues in the second quarter were up 25%, or 29% excluding the impact of foreign currency. On the product front, on June 28, Vans launched a new footwear collection known as 66, which features several construction advantages that result in lightweight, flexible footwear geared at the action sports enthusiast. The product, with prices starting at \$70, launched globally at select footwear or Footlocker locations, select specialty lifestyle retailers, select Vans retail stores, and Vans.com. And, though it's only been three weeks, we're very encouraged with the early results.

Looking at the performance in the Americas region, second-quarter revenues were up at a low double-digit rate in constant dollars, driven by a balanced, owned retail and wholesale growth. Our Americas D2C business had a great quarter, with revenue growth of 15%, driven by strong results from our e-commerce business and owned stores. We added seven new stores during the quarter, including our first in Atlanta -- a great example of building the brand outside the western US -- and initial reads are very positive. From a consumer connectivity lens, with the 18th Vans Warped Tour two-thirds of the way through, it's been another summer of connecting the brand through music, philanthropic efforts, social media, and youth culture to interactively tell our story. The Warped Tour has been such a successful connection point that we're looking at ways to expand the event into Latin America and Europe as well; but more on that at a later date. Now I'll pass it over to Karl Heinz who will take us through some brief international highlights.

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**Karl Heinz Salzburger** - *VF Corporation - President, VF Europe, Middle East, Africa, Asia*

In the second quarter, Vans continued its outstanding moment in Europe, more than doubling revenues on a constant dollar basis versus the same period of 2011, and grew revenues by more than 20% in Asia. In Europe, we continued to use the successes we have realized in the UK as a catalyst to drive momentum and brand awareness into existing and new markets around the region. All markets and categories were up significantly in the quarter, with exceptional strength in Northern and Central Europe. In our D2C business, we opened two new retail stores in Rome and Warsaw, which showcased our new Vans retail concept. And very exciting for us is to see Fontana's launch of seven new e-commerce sites in the UK, Germany, Netherlands, France, Ireland, Austria, and Sweden on July 16. It's important to note that this is the first time that Vans products are available directly from Vans in Europe, so this represents an excellent opportunity for us to enhance our ability to connect with our consumers, tell stories that are locally relevant to them, and drive additional revenue growth.

Vans' Asian business also posted great results in the second quarter. Of course, product is king, and so we're investing behind strengthening our regional product team. We are also excited about the test of the new retail store format in Shanghai; we have seen encouraging initial results. This global format adds a number of additional regional elements which resonate well with local consumers. Vans has also shown tremendous growth in a number of key distributor markets in Asia, most notably Australia, which further validates the regional growth opportunity we have in addition to the Chinese market. Clearly, our global strategy is working and we're excited about our next chapter of growth. If you were unable to attend investor's day, I would encourage you to check out [Vansisgrowth.com](http://Vansisgrowth.com) for a deeper dive into our five-year strategy. And now let's take a look at Timberland.

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**Steve Rendle** - *VF Corporation - VP*

Global revenues for Timberland were up slightly on a constant dollar basis in the second quarter. In North America, revenues declined modestly as planned. Strategically, we remain focused on accelerating Timberland's product engine for maximum innovation, strengthening consumer



connections, optimizing wholesale distribution in D2C, and growing business internationally. As we work to integrate the brand into VF organizationally, we are creating the necessary framework to enable better collaboration and communication while maintaining Timberland's strong global operating culture.

On the product front, we've made great strides in finalizing the Timberland apparel team, and have begun constructing the infrastructure necessary to support next year's apparel launch. Simultaneously, we've activated an extensive consumer segmentation study to help us better understand the unique identity of the Timberland consumer. This will enable us to design and develop product that really resonates with the brand's global consumer. An example of this work is our spring 2012 Hookset footwear collection, built in accordance with Timberland's unique SPG formula, which stands for great style, performance, and green. Constructed from only four materials, all either organic or recycled, it is part of the growing Earthkeepers collection, the largest eco-conscious collection of footwear in the world. At the halfway point in the year, we're slightly ahead of our cost synergies target driven by supply chain leverage, inventory discipline, and organizational initiatives designed to bring Timberland's cost structure into better alignment with our overall Outdoor and Action Sports portfolio. We remain tremendously excited about the global potential of this powerful brand with much, much more to come. Now I'll turn it over to Karl Heinz to take you through what's going on internationally with Timberland.

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**Karl Heinz Salzburger** - VF Corporation - President, VF Europe, Middle East, Africa, Asia

Revenues for Timberland's International business, consisting of Asia and Europe, was up 5% in constant dollars, driven by mid-teen growth rate in Asia and a low single-digit increase in our European business. In Europe, we have seen great results from our very successful Earthkeepers line, building our women's business and accelerating our online selling across all countries. And, for the second half, we have planned to open 20 stores through our distributor network and 10 stores with our franchisees. Asia continues to experience stronger growth than the rest of the world. With positive results across all categories in men's and women's product, we're very pleased with the progress we've made with several markets, including China, where we are working to leverage VF's existing infrastructure. We have also completed the successful move of our headquarters from Singapore to Hong Kong, integrating Timberland onto VF's Asian platform. And, with that, let's switch gears to the Wrangler brand.

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**Scott Baxter** - VF Corporation - President, VP Imagewear

Thanks, Karl Heinz. On a global basis, second-quarter revenues for the Wrangler brand were down 1%, or up 1% if you exclude the impact of foreign currency. The story here is one of timing. Recall that we had low double-digit constant dollar growth in the first quarter due to the shift of seasonal products from the second quarter due to the warm weather. That said, first-half growth for Wrangler is right on track with our full-year expectations. In our Americas region, second-quarter Wrangler revenues grew at a low mid-single digit rate in constant dollars driven by strong performances in our Western specialty and Latin America businesses, offset by a slight decline in our mass-market business in the US. As you know, continuous product innovation has been the key driver of growth in our Jeanswear Americas business, in nowhere more so than our Western businesses. Here, we're happy to report that great momentum is building for our Wrangler 20X, Retro, and Premium Performance Cowboy Cut styles, which continue to gain space.

In terms of Wrangler's mass-market business, results in the quarter reflect the seasonal shift in sales I referenced earlier. In fact, in the first half, revenues in our mass business rose 3%. Importantly, Wrangler continued to gain market share in the second quarter driven by strong performance in both seasonal and denim products. The Wrangler product innovation engine continues to deliver with significant growth in men's tops and our Wrangler Five Star Premium Denim line. We are positioned to win at retail this fall and winter, with powerful in-store branding and an expanded floor space designed to showcase our products' strengths.

Outside the US in the Americas region, Wrangler's Canadian business saw strong growth in its mass business, including strong comp store sales increases. And in Latin America, we're encouraged to see solid growth in Mexico, Argentina, and Brazil where the brand continues to gain traction. In the Americas D2C business, while still small, our e-commerce revenues grew by more than 70% in the second quarter, driven by the launch of a brand-new platform for Wrangler.com. And with 60% plus conversion rate, we're very pleased that the new online experience is resonating well with our loyal consumers. Turning to Wrangler's international business, Karl Heinz?



**Karl Heinz Salzburger** - VF Corporation - President, VF Europe, Middle East, Africa, Asia

Wrangler's international business consisting of Europe and Asia was down 10% in constant dollars against last year's same period, reflecting the combination of continued growth in Asia, where the brand is relatively small, offset by a decline in Europe. Our business in Europe remains difficult, due to the macroeconomic environment, though generally we are performing in line with our peers. Positive performances, particularly in Russia, Turkey, and Scandinavia, were not enough to offset challenging conditions in Western and Southern Europe. Looking at the second half in Europe, we have action plans in place to stimulate sell-through and manage inventory relevant to market conditions. And finally, let's take a look to Lee.

**Scott Baxter** - VF Corporation - President, VP Imagewear

Thanks, Karl Heinz. Lee's business, on a global basis was unusually challenging this quarter, with global revenues down 11%, or 8% on a constant dollar basis. In the US, following several quarters of strong growth, the brand is navigating through near-term difficulties created by changing dynamics in the mid-tier channel. In addition, Lee revenue comparisons reflect the shift of some seasonal products into the first quarter from the second. So, despite a double-digit revenue decline in the second quarter, Lee brand revenues in the US are down only 4% in the first half. The good news is that Lee continues to gain share in both the men's and women's categories and outperform the jeans department averages of its key customers. Karl Heinz?

**Karl Heinz Salzburger** - VF Corporation - President, VF Europe, Middle East, Africa, Asia

Lee's international business, consisting of Germany and Asia, was up 15% in constant dollars, driven by strong momentum in Asia where Lee is our largest brand and where revenues was more than 50%, offset by a slight decline in sales in Europe. Strength in Asia was due to ongoing investments to increase brand visibility, including a new marketing campaign in both China and India. We also focused on improving our distribution by optimizing store locations, including placing a greater emphasis on more locations which are taking share from traditional department stores. In Europe, soft conditions contributed to lower revenues in the quarter. Weakness is concentrated in Western and Southern European markets, but bright spots include Russia, France, and Scandinavia, where revenues are showing strong growth year to date. Lee's woman initiative in Europe, led by the Stretch Deluxe concept, are continuing to outperform expectations with bottoms up 15% year to date. Now, I'll turn it over to Bob, who will take you through our financial highlights.

**Bob Shearer** - VF Corporation - SVP, CFO

All right. Well, thanks, all, for the terrific overview. Now, I'd like to conclude today's call with commentary around our second-quarter financial performance, and our updated guidance. First, I'll start at the top with revenues, which were up 16%, or 19% in constant dollars. We achieved another quarter of strong organic growth, up 6% in constant dollars. And that's lower than the exceptionally strong 14% organic growth achieved in the first quarter. You'll recall that quarter benefited from earlier shipments and stronger sales of seasonal products. That is, some sales shifted from the second quarter into the first, due to the unseasonably warm weather. In addition, our organic revenue growth was negatively impacted by the sale of John Varvatos, reducing the growth rate by about 1%. For the first half, organic revenue growth was 10% in constant dollars, giving us confidence in our ability to achieve our 8% organic revenue growth guidance for the year.

Our International and direct-to-consumer businesses remain important drivers of VF's current and future growth, and both are on track to achieve the 15% organic revenue growth targets we established at the start of the year. Eric touched on the strength we're continuing to see in our international businesses, Europe and Asia in particular, where our strong brands and marketing investments continue to drive superior performance. In terms of our direct-to-consumer business, we're halfway through the year and we've opened 58 new stores. The second half will be a heavier period of additional store openings and strong direct-to-consumer revenue growth as we work toward a total of approximately 130 new stores by year end.

Now, quick comment on the three businesses we haven't touched on -- Imagewear, Sportswear, and Contemporary brands. So, I'll start with Imagewear, which posted another quarter of higher revenues; but as noted in the release, the increase moderated from what we've seen in prior



periods. In the second quarter, the Imagewear group was competing against an exceptional quarter of growth in the 2011 period, as that quarter included a number of new program shipments. So, this was as anticipated, and we remain confident in our achieving our guidance for mid-single-digit revenue growth for the full year. In terms of the Imagewear operating margin, the decline there is due entirely to the peaking of product costs for this coalition; those costs now moderating and, along with some pricing adjustments, we expect the Imagewear operating margin to return to mid-teen levels by next quarter. For the year, this coalition's operating margins should surpass that of last year.

Move to Sportswear, where the reported numbers, again, don't tell the whole story; the decline in revenues here is due to two items specific to Nautica -- the timing of special programs, which have historically been difficult to predict; and lower distressed sales. Nautica's business outside of the special programs, including the regular wholesale and retail businesses, grew nicely, by 5% in the quarter. And Kipling continued its growth momentum, growing by a double-digit rate in the quarter. For the first half, Sportswear revenues are up 4%; so here, too, we remain comfortable with our original guidance for mid-single-digit revenue growth this year.

And, in terms of our Contemporary brands business, keep in mind the reported results now reflect the sale of the John Varvatos business; so, last year's second-quarter results include the Varvatos business and this year's exclude the business from April on. If we take the Varvatos numbers out of each period, revenues were up 4%, or 7% in constant dollars in the quarter. For the first half -- once again, excluding John Varvatos -- Contemporary brands revenues grew by a healthy 10% in constant dollars, reflecting growth across all three brands -- 7 For All Mankind; Splendid; and Ella Moss. For the year, due to the Varvatos sale, total coalition revenues will decline by a mid-single-digit rate. Excluding the Varvatos business from both periods, the coalition is on track to achieve high-single-digit revenue growth in 2012.

Now, let's move on to gross margin. We were really pleased with the 20-basis-point improvement in gross margin during the quarter. We knew the improvement was coming and we're really happy to report that it was a little earlier than expected. And keep in mind that last year's gross margin for the period included a 65-basis-point benefit from a facility closure. So, the 20-basis-point improvement is more like 85 basis points from an operating standpoint. The better-than-expected improvement was mostly driven by our business that has been most cost challenged, our US Jeanswear business, which has been hit hard by the cotton cost increases over the last year.

Our US Jeanswear gross margin improved by about 100 basis points year over year. We also saw healthy gross margin expansion in each of our Outdoor and Action Sports, Contemporary brands, and Sportswear coalitions. As you can imagine, that gives us great confidence in our ability to achieve the gross margin expansion expected in the second half of the year. And as we've said in the past, that improvement should be strongest in the fourth quarter, which in 2011 posted the highest cost of the year especially in our US Jeanswear business.

Now, also impacting the fourth quarter specifically is our growing direct-to-consumer base, where gross margins are substantially above VF averages. In fact, for the year, we now expect gross margin to expand slightly more than the 70 basis points of improvement indicated in our initial guidance. Our SG&A ratio as a percent of revenues rose to 38.4% from 35.7% last year. Now, of the total 270-basis-point increase, Timberland accounted for 240 basis points. You'll recall Timberland's SG&A rate is much higher than that of VF's, and that is particularly so in the second quarter given Timberland's seasonally low sales level. Excluding Timberland, our SG&A ratio is up by a modest 30 basis points, due entirely to the impact of higher pension expense this year versus last year.

Our operating margin was 7.9% on an adjusted basis, compared with 10.3% in last year's second quarter. Let's review the puts and takes here. Timberland negatively impacted the adjusted operating margin by 230 basis points, due to the seasonal losses they historically generate in the second quarter. And, the comparison is impacted by 40 basis points from higher pension expense this year. Excluding these two items -- that is, on an apples-to-apples basis with the prior-year period -- our operating margin in the current quarter reflects some improvement over the prior year's quarter. And one other item I wanted to point out on the P&L is the miscellaneous net line. The big swing here from last year is the inclusion of the \$42 million gain on the sale of the Varvatos business. An additional benefit from the sale of the John Varvatos business is that it triggered an income tax benefit worth \$11 million, or \$0.10 a share.

Now, you'll note that the tax rate in the second quarter was unusually low, at 15.1%, reflecting a reduction of 600 basis points related to this \$11 million benefit. For the full year, we now expect our tax rate to approximate 25%, including the favorable impact related to the sale. Recall, however, that as outlined in our release, both the \$42 million gain from the sale of Varvatos and the related tax benefit are excluded from adjusted earnings, considering the unusual nature of the sale. That, of course, applies to our discussion of second-quarter results, as well as our full-year guidance.





And that brings us to the bottom line -- an adjusted earnings per share of \$1.11. Once again, I'll outline the puts and takes impacting the two quarters. Included in this quarter's adjusted earnings per share of \$1.11 was a \$0.12 per share loss from Timberland, which was a little better than we estimated in our first-quarter release. Also impacting the current quarter's earnings is a combined \$0.11 per share from foreign currency and a higher pension expense. On the other hand, earnings per share in last year's quarter benefited by \$0.07 from a facility closure.

Taking into account all these items in both the 2012 and 2011 periods, the year-over-year positive swing in earnings on a more comparable basis with last year was \$0.24 per share, underscoring our strong fundamental performance. Excluded from the adjusted earnings per share are, of course, acquisition-related expenses and, as I previously mentioned, the John Varvatos gain, which were \$0.03 and \$0.32 per share, respectively. In April, we indicated that the John Varvatos gain would approximate \$0.20 per share; the difference between that and the \$0.32 relates to the tax benefit triggered by the gain on the sale, which, again, is a major contributing factor to the significantly lower tax rate in the second quarter.

A few comments on our balance sheet, Eric noted our focus on inventory control which was pretty well demonstrated by the very low 3% increase in inventories, excluding Timberland, in the current period. Short-term debt was up over 2011 levels to support working capital needs; but by year end, we expect to be completely out of the commercial paper market, given our expectation for another year of exceptional cash generation. In fact, given our strong working capital management, we've increased our guidance for cash flow from operations this year to a record \$1.2 billion.

To close with a recap of our revised earnings guidance, Eric noted the \$0.05 per share increase to \$9.50 in adjusted earnings per share. When considering this increase in earnings guidance, it's important to keep in mind that, as we said in the release, it covers an additional \$0.07 impact of a decline in the euro-to-dollar relationship to the current rate, or to 1.22 to the dollar. Our prior guidance was based on a euro-to-dollar relationship of 1.25. That means that because of the continued strengthening of the dollar to the euro, our guidance now includes a foreign currency headwind of \$0.42 per share for the year, as compared to our prior estimate of \$0.35. The impact from higher pension expense is still expected to approximate \$0.19 per share in 2012. We remain comfortable with the \$1.10 in accretion from Timberland right in line with what we said back in February. We're very encouraged by all the great work that's taking place at Timberland and look forward to even more progress as the months and years to come.

In terms of revenues, if you do the math around our current guidance, it implies organic second-half revenue growth in constant dollars of between 6% and 7% versus nearly 10% in the first half. Keep in mind that revenues in the second half of the year include about 1 point of negative impact from the John Varvatos sale, and it also reflects our continued caution around current economic conditions. Now, to provide just a little color around the cadence of earnings growth we expect in the third and fourth quarters, first I remind you that gross margin expansion will be stronger in the fourth quarter than the third, as product costs continue to decline over the second half. Also, keep in mind that our direct-to-consumer business, which is highly profitable and continues to grow, should be the strongest in our fourth quarter. That will likely push our revenue comparisons to be a bit stronger in the fourth quarter than the third. And also, because our International business is strongest in the third quarter, the negative currency impact is much tougher in the third quarter versus the fourth. In fact, over half of the \$0.42 per share full-year currency impact will be in the third quarter.

So that wraps up my commentary for this morning. All in all, another great quarter by VF. We've got momentum. Our brands are delivering globally. The investments in our brands are paying off. As a response to the challenging economic environment, retailers in all regions are placing bigger bets with proven brands like ours. Our international results in this quarter and first half are proof to that. We're tightly managing our inventories and overall cost structure. Simply put, we have the brands and operating platforms to win in any economy, and in any region of the world. And we're looking forward to maintaining our momentum in the second half of the year. With that, back to Eric.

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

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Michael Binetti, UBS.

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### Michael Binetti - UBS - Analyst

Congrats on a great quarter. Just a little housekeeping quickly. How much of a drag was reduced distribution for Timberland in the quarter? I know you guys said you were going to be cleaning that up.

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### Steve Rendle - VF Corporation - VP

Yes, Michael, this is Steve. There was a minimal impact as we look to right size that business. We are closing some of the distribution. Simultaneously we're rightsizing the product segmentation strategy, getting the right products in the right channels. So some impact, but not 100%.

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### Michael Binetti - UBS - Analyst

Okay. And then I think if I have the numbers right that you guys gave, I think you said China revenues grew by I think 19% in the first half but up 20% in the second quarter. So somewhat of an acceleration there. And then I think the guidance you gave for the year of 20% growth in Asia overall was an acceleration from the 19% in the quarter. So if I'm right, you're looking forward to an acceleration in the back half, which would be a continuation of acceleration in the second quarter. Could you just talk a little bit about what would be driving those solid trends just because we hearing such volatile comments out of the macro environment over there?

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### Eric Wiseman - VF Corporation - President, CEO

Yes. Let me -- I know that we've thrown -- this is Eric, Michael. I know we've thrown a lot of numbers out there today. Our China business in the second quarter was up 34%, driven by our Jeans business that was up 50% in the second quarter. Our full-year expectation for China on a constant currency basis is up 24%. So with that fact reset, it suggests that we're not expecting the same overall growth rate. We've had a phenomenal first quarter particularly in our Jeans business, but we are expecting growth in above 20% for the year out of our China business. Does that help?

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### Michael Binetti - UBS - Analyst

Yes. It does. And could you tell us what same-store sales were for the D2C business in the second quarter please for our models?

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### Eric Wiseman - VF Corporation - President, CEO

Yes. Worldwide, the stores that we own and operate were up mid-single-digit in the second quarter. That's about where they were in the first quarter, and that's our outlook for the full year.

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### Michael Binetti - UBS - Analyst

All right. Thanks a lot. Congrats again, guys.

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**Operator**

Kate McShane, Citi.

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**Kate McShane** - Citigroup - Analyst

I just had a clarification question on the guidance you gave today of \$9.50. Bob, did we hear you say that the tax rate benefit that you experienced in Q2 is not included in this new guidance? Could you just reconcile that for us?

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**Bob Shearer** - VF Corporation - SVP, CFO

Sure. What we're seeing there, Kate, is that that tax benefit that was associated with the John Varvatos gain, all of that gets excluded. The gain itself and also that additional tax benefit that was worth \$0.10 a share gets excluded in our adjusted earnings per share numbers. So yes, that incremental \$0.10 is not in the \$9.50.

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**Kate McShane** - Citigroup - Analyst

Okay.

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**Bob Shearer** - VF Corporation - SVP, CFO

Just I guess to carry through that, the other point is what we said was that our overall tax rate for the year looks to be pretty close to the 25% level.

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**Kate McShane** - Citigroup - Analyst

Okay. Fantastic. And then my second question has to do with the product cost timing for Jeanswear versus Imagewear. Can you just walk us through a little bit why Jeanswear was a little bit better than expected and the timing of the higher product costs for Imagewear? And how we should look at those two businesses from a gross margin standpoint for the rest of the year?

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**Scott Baxter** - VF Corporation - President, VP Imagewear

Good morning, Kate, how are you? It's Scott. I'll take you through that -- it's pretty simple. The Jeanswear and Imagewear businesses are different in that we carry a higher inventory in the Imagewear businesses because of the differentiation in the models. The models are a little bit different so therefore we carry the higher inventory and you're going to see the product costs flow quicker in the Jeanswear business as you did in this quarter, and lag a little bit in the Imagewear business simply because of the model differentiation. And then we'll be back to I think by the fourth quarter for both of the businesses, historical levels and plan and what we have talked about in the past.

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**Bob Shearer** - VF Corporation - SVP, CFO

And, Kate, maybe just a little follow-up on that, in the Jeanswear piece, as we have said in the past, we are really locked in in terms of our denim costs. So the improvement a little sooner than expected was more due to manufacturing efficiencies. Our folks there are just doing a great job in terms of running the plants very, very efficiently. Also keeping inventories under great control, so that improvement, that faster than anticipated improvement came from a couple factors like that.

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**Kate McShane** - Citigroup - Analyst

Okay. Great. Thank you.

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**Operator**

Omar Saad, ISI Group.

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**Omar Saad** - ISI Group - Analyst

I add my congratulations to a well executed quarter. I wanted to talk about Vans. The brand has been so strong. Obviously, it's really catching quite a bit at the consumer level globally especially in Europe. I wanted to talk to you about how you think about that canvas shoe -- that classic canvas shoe look that Vans is so well known for. And how do you think about that -- is that really driven by the adoption of the brand as a lifestyle brand by consumers, is it a fashion trend that's really hot right now? Is it sustainable? How do you turn it from a fashion trend at the consumer level into a sustainable kind of brand adoption if you will? Any thoughts around that, I know it would be really helpful.

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**Steve Rendle** - VF Corporation - VP

Sure. Omar, this is Steve and perhaps Karl Heinz can fill in from a European standpoint. Clearly, the Classics portion of the Vans business is what ties it to its historical cultural element of that skate consumer. As we talked about in New York, that really is the nucleus of how we take our brand to market. And then we move away from that center really to that youth culture connectivity on using the Classics as the anchor but also moving into a number of the other product categories, including the new 66 launch to continue to expand ourselves from that core consumer into that youth lifestyle component driven from music and that street culture component.

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**Karl Heinz Salzburger** - VF Corporation - President, VF Europe, Middle East, Africa, Asia

Omar, this is Karl Heinz. If I can add, Vans is doing particularly well in Europe as you have seen also, and good news is we are clearly seeing a lot of good sales on the Classics family, but in addition also we monitor and we see great results on the other families as well, including the 66. That's the first point. The second, while we have strong sales in UK, at the same time we see also very good performance across Europe. And all our marketing initiatives -- we are making sure that we establish this as a brand and not just a fashion peak.

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

Omar, if I could pile on -- on the Vans subject, at our event in New York City last month, as Steve mentioned in the call, we think we can add \$1 billion to this brand over the next five years. And we think we can do that, and we don't come out and talk about those things until we have some proven concepts and some demonstrated performance internally, and Steve talked about four things. Product innovation, things like 66 line. Direct-to-consumer growth, so look at the number of stores that we're opening around the world. Geographic expansion, you mentioned the strength of the business in Europe is also growing in Asia. And consumer connectivity.

Those were our four points. Consumer connectivity comes to life online when you go see that brand in particular. So we're confident we have traction against that \$1 billion and thrilled that we're having the kind of year we have. It's a great way to start against an ambitious goal like \$1 billion to be up 29% in the quarter.

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**Omar Saad** - *ISI Group - Analyst*

Okay. Great. And then Eric, while I have you, as we think about maybe some of your more cyclical businesses, slowing a little bit, still maintaining very healthy margins, and I'm talking about the business maybe with those with less global opportunities? Is it a good time to start thinking about portfolio management and take advantage of how strong those businesses have been and maybe consider a divestiture or two?

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

Well, as you know, we consistently say that we're active portfolio managers. And it's tough to time acquisitions and divestitures. That's for sure. But we are always looking across our portfolio at what do we want to look like three or four years from now? And how do we get there? That includes building new brands and markets to invest and to grow. And it includes buying and selling and in the last 12 months we've acquired Timberland and we've acquired -- we've divested John Varvatos and we continue to try to reshape our portfolio but I can't comment specifically about what our next step might be.

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**Omar Saad** - *ISI Group - Analyst*

Thanks, guys. I appreciate it.

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**Operator**

Mitch Kummetz, Robert Baird.

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**Mitch Kummetz** - *Robert W. Baird & Company, Inc. - Analyst*

Bob, I just want to drill down on the gross margin a little bit. Let me start -- I think your comment on the Jeanswear business for the second quarter is that gross margin was up 100 basis points. Did I hear that right?

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**Bob Shearer** - *VF Corporation - SVP, CFO*

That's right.

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**Mitch Kummetz** - *Robert W. Baird & Company, Inc. - Analyst*

So how are you thinking -- and I think you said that that gross margin improves over the balance of the year and it kind of for this year at least it peaks in Q4. How should we be thinking about Jeanswear gross margin over Q3 and Q4?

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**Bob Shearer** - *VF Corporation - SVP, CFO*

Yes. It continues to improve substantially over that period of time. So again, 100 basis points in the second quarter, and that grows to -- I think the best way to maybe put perspective around that is that by the end of the year, we expect our gross margins to be back to more historical levels. The levels that we saw in years prior to 2011. So the expansion just continues to accelerate throughout the year and a lot of it is based on as costs continue to come down.

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**Mitch Kummetz** - *Robert W. Baird & Company, Inc. - Analyst*

Can you get even better than historical levels in Jeanswears going into next year? Based on cotton prices?



**Bob Shearer** - VF Corporation - SVP, CFO

We don't see that right now. Okay? Based on what we've acquired. And we'll have more to say about next year. And as we lock in the costs for next year, but for 2012, we are not seeing that but we are seeing a return, which is a big statement. We're seeing that return to those more normalized levels that we enjoyed historically.

**Mitch Kummetz** - Robert W. Baird & Company, Inc. - Analyst

Okay. And then your gross margin guidance on the year is now slightly better than the 70 basis points of improvement that you highlighted I think on the last call. Is there any way you can -- when you think about the year on gross margin, can you break out or quantify the puts and takes on your expectations for gross margin? Can you give us a sense as to where do you think mix comes in for the year, where do you think actual input prices impact is for the year?

**Bob Shearer** - VF Corporation - SVP, CFO

Yes. So a little perspective around that. Initially, we indicated that we expected 70 basis points of gross margin improvement. And we said that most of that was mix. And now said it should be a little bit better and what we're talking about there is maybe 10 basis points of additional improvement, which isn't a huge number, but is clearly moving in the right direction.

So just a couple factors on the full-year basis. As we look at that now implied 80 basis points, we still expect about 70 basis points coming from mix. And that's really been pretty consistent, so we've been running right around 70 basis points over the past several years, and that's been pretty consistent and will be a key driver going forward as well. On top of that, on top of that, we have in terms of price and cost, it looks like we'll improve by an additional 30 basis points. We expect to see gross margin expansion actually across nearly every single one of our businesses for the year 2012. So really obviously pleased with that. So that nets to about 30 basis points on a full-year basis.

And then keep in mind that in last year, we had a few credits. We had a couple of credits. One was from that facility exit and also from a LIFO change. And that helped last year by about 20 basis points. We don't have that this year. So the 80 points is essentially 100 basis points of improvement from mix and our pricing cost ratio. And then net of that 20 basis points that helped last year not in this year.

**Mitch Kummetz** - Robert W. Baird & Company, Inc. - Analyst

Okay. That's helpful. Thanks for walking me through that. Last question, just on Timberland in the back half, I know your comments in general, Bob, were that you expect stronger revenue growth in Q4 than in Q3. How should we be thinking about the Timberland business on an organic basis? I recognize that Q3 is a little screwy because of the timing of the acquisition, but from an organic standpoint, how should we be thinking about Timberland's growth in the back half, Q3, Q4, higher growth in Q4, I would assume? Organically?

**Scott Baxter** - VF Corporation - President, VP Imagewear

Yes. I will go ahead and take that question for you. We're looking at the Timberland growth as we've said, is to just a gradual improvement year-over-year. In the US, we've got a very difficult winter to comp off of. We're planning growth because of that -- what we saw in 2011. But on a year-over-year basis, we're planning the business really, really slight growth overall.

**Mitch Kummetz** - Robert W. Baird & Company, Inc. - Analyst

Okay. All right. Thanks, guys. Good luck.



**Operator**

Joseph Parkhill, Morgan Stanley.

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**Joseph Parkhill - Morgan Stanley - Analyst**

My first question is about Jeanswear. While you explained some of the weakness in the quarter due to mid-tier and demand pull forward to 1Q, I was wondering if you could talk a little bit what you're expecting from a revenue growth perspective in the second half. Would you expect it to normalize a little bit? And then also your expectations around the European Jeanswear business.

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**Scott Baxter - VF Corporation - President, VP Imagewear**

Joseph, how are you? This is Scott. I'll take the first part of the question. I think the key component of your question is if you think back to February, the last two weeks of February and all of March, the really unseasonably warm weather, we pulled a lot of our seasonals forward in the first quarter. And that helped us to have low double-digit increases in the first quarter and so we are a little less from a revenue standpoint in the second quarter, but if you take a look at the first half, we are really comfortable with where we landed relative to that.

And then if you look forward and take a look at the full-year standby our guidance that we've talked about as far as mid-single digit growth for the Jeanswear business for the full-year combined. As far as the turbulence or whatever you commented on in the mid-tier, no comments on any of our individual customers and we'll just continue to work our way through it and do the best we can.

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**Karl Heinz Salzburger - VF Corporation - President, VF Europe, Middle East, Africa, Asia**

Joseph, this is Karl Heinz for the international side. In Europe, you probably know in addition to the challenging economic situation, the jeans market is not in the best health. And we act in this market like many of our peers do. So we expect our revenues to be down in the high-single-digit for the year. What we're doing, we are improving our gross margin and working on the SG&A side so that profitability probability continues to improve. On Asia on the other side, you have heard we have strong performance on Lee. And we expect Asia to be as strong as it has been last year.

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**Joseph Parkhill - Morgan Stanley - Analyst**

Okay. That's helpful. Thanks. And just on Timberland I think that was maybe the area where inventories were a little bit higher than sales growth. How comfortable are you at the current inventory levels and when would you expect that growth would start to match your sales growth for the brand?

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

Yes, Joe, I'll start on that one. Our inventories, by the end of this second quarter, we're in much better condition, so as you know and what you're referring to is that we've been aggressively moving some excess inventory through -- we've been moving it over the first half of the year. So a lot better -- a little bit -- still a little bit to move in the third quarter but not like we've seen in the first half, so at this point in time we're getting to a position where we're in a lot better shape than we were earlier in the year.

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**Joseph Parkhill - Morgan Stanley - Analyst**

Okay. Thank you.

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**Operator**

Robbie Ohmes, Bank of America Merrill Lynch.

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**Robbie Ohmes - BofA Merrill Lynch - Analyst**

I was hoping, Eric and -- actually any of you who want to chime in -- could you walk us through what you're doing different in China and sort of break out for us, this is what we're doing in Jeanswear, in Lee to keep that momentum going even though others around us are seeing a slowdown? And then similarly if you could tell us on Vans and North Face how much of the growth that you're continuing to see in China is new door and whether you've seen any slowdown in same-store sales over there, just to maybe help us understand in general what's going on in that market broadly?

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**Karl Heinz Salzburger - VF Corporation - President, VF Europe, Middle East, Africa, Asia**

Robbie, this is Karl Heinz. Let me try to give you the answers. We operate in China in a different model than many of our competitors. We don't have just a single brand. We actually have a portfolio of brands so we have our five large brands, Timberland, The North Face, Vans, Kipling, which are distributed directly. And all these four brands, large brands, would have about 2,000, 2,200 doors, which is significantly lower than many competitors. So I guess the first answer is we still have a way to go. China is working with tier cities, so we're covering the top tiers. I guess the message is we have way to go in the future.

We also have in addition to the brands which were done directly, the smaller brands are -- we have distributors, so we have an opportunity longer-term once that business gets to sizable size to bring that in-house. As we mentioned before, Lee is our largest brand in China. We had a great quarter. We also did say in Q1 we had some shipments. We shipped a little bit more in Q2. So while the growth is strong, the same time we're not immune to what is going on China, but we are confident, due to our brand portfolio and our strategy that we have still good way ahead of us.

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

Robbie, we still have comp store growth happening in all of our brands right now in China. And Karl Heinz said, we're only in 2,200 points of distribution across those brands. That's not in each brand, that's across all of them. So if you look at what some other brands' businesses have in China on doors per brand, we have a long way to go. We're thrilled by that because we have a team in place there that can get that done.

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**Robbie Ohmes - BofA Merrill Lynch - Analyst**

Thanks. And just a quick follow-up on the US mass channel business for Jeanswear. Is it a unit volume problem? Is it programs being canceled? Or is it average selling prices coming down? Could you just give us more flavor what all the pressure is you guys are working through there?

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**Scott Baxter - VF Corporation - President, VP Imagewear**

Robbie, this is Scott. We feel pretty good about our mass channel business and still stand by the fact that we're going to have a good year and had a good first half. And we pulled some seasonals, significant seasonals into the first quarter. As you remember in the first quarter release when I talked about low-single digit -- excuse me, double-digit increases for the first quarter. So again, I go back to the fact it's the picture of the first half versus just looking at it as one quarter, but I --

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**Robbie Ohmes - BofA Merrill Lynch - Analyst**

Sorry, Scott, I maybe meant the moderate channel.



**Scott Baxter** - VF Corporation - President, VP Imagewear

As far as the moderate channel, we don't comment on specific customers. And we're hopeful that and feel optimistic that the future is a little bit better than the second quarter, but again, we had a very strong first quarter. Second quarter as we commented in Lee business specifically was a little bit slower, but again we did pull some seasonals forward in the first quarter. But I think the key for us is new product. We have in the moderate channel, we have all kinds of new products both in our male and our female business that are really resonating with the consumer and that's going to help us win in the long-term in the moderate channel.

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

It's an interesting time in that mid-tier channel, Robbie. There's a lot of change going on and so we always look at our businesses two ways. One is absolute performance. And the other is relative performance. And we're real confident in the Jeans category that we're taking share in the mid-tier channel, have for the first six months. We've got great new products in there under the Lee brand that consumers are resonating with. We just need more consumers in that channel right now but that will happen eventually. That will get sorted out.

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**Robbie Ohmes** - BofA Merrill Lynch - Analyst

Got it. Thanks very much, guys.

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**Operator**

Christian Buss, Credit Suisse.

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**Christian Buss** - Credit Suisse - Analyst

Congratulations on a really nice quarter. I was wondering if you could let me know what is embedded in your guidance when it comes to the competitive pricing environment as commodity costs are coming down?

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**Bob Shearer** - VF Corporation - SVP, CFO

Basically the answer to that, Christian, is that our pricing remains relatively stable. So a couple of pieces. Relative to Jeanswear, where the bigger pricing increases occurred in 2011, generally, we anticipate with some -- a few exceptions, generally we anticipate that pricing there will hold throughout the year. And you mentioned costs coming down. That's true from a cotton standpoint, but other costs, other costs in other of our businesses for example synthetics are up to some extent. Nothing at all like what we saw in cotton last year, but there have been some increases in other parts of the business. And what we've done of course is we've had some pricing increases to match that. So actually across the board overall for VF there are a few percentage points worth of pricing included in our numbers -- in our revenue numbers. Again offset by some cost increases as well coming down to that gross margin expansion on a net basis.

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**Christian Buss** - Credit Suisse - Analyst

That's helpful. Thank you and good luck.

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**Operator**

David Glick, Buckingham Research Group.

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**David Glick** - *Buckingham Research Group - Analyst*

Eric, I was wondering if you could give us some early thoughts on how you're thinking about the Timberland apparel opportunity, how you're strategizing that rollout, the pace of the rollout, the distribution strategy and maybe men's versus women's?

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

Not quite ready, David, to disclose that, because we're still developing those plans. What we know is we intend to launch apparel -- we're really talking about the US market here, because we have a very successful Timberland apparel business in Europe and Asia. In Asia in fact about 50% our revenue is split about 50% to 50% between revenue and -- I'm sorry, between apparel and footwear. So it's a US question. That line -- the products are taking shape. But it's too early to comment on that. We have not sorted out the channels, the pricing. All of that is in process. And we're going to -- when I say launch, I'll temper that with the size of the launch. We're going to kind of ease into that program, walk a bit before we run. And get moving, but start moving in the fall of next year.

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**David Glick** - *Buckingham Research Group - Analyst*

Is it fair to say --

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

We'll give you more details as we have them.

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**David Glick** - *Buckingham Research Group - Analyst*

Thank you, Eric. Good luck.

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**Operator**

John Kernan, Cowen and Company.

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**John Kernan** - *Cowen and Company - Analyst*

Eric, you talked about being slightly ahead of your synergies plan for Timberland and then you talked about potentially more synergies going into next year. Where are those synergies coming from and can you quantify any of that? Thanks.

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

Sure. As you know, John, last year in 2011, we exceeded our initial expectation for synergies. We're running slightly ahead again this year. What's changed the most is the leverage in our supply chain to help Timberland execute their apparel sourcing. That's largely current as I just said in Europe and Asia. And also we're taking our significant manufacturing expertise and bringing some of those skills to bear in the factory that Timberland and we now own in the Dominican Republic. We have terrific manufacturing engineering expertise, and that's helping us reduce the cost in that factory. So the short answer to your question is supply chain synergies -- kind of every way, we've touched on it every way.

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**Bob Shearer** - VF Corporation - SVP, CFO

In addition to that I guess I'd also just say managing inventories as well. So when you look at the risk created by having higher inventories versus lower, we think there's an opportunity there as well that we've seen once we've owned the business and dug behind some of the practices, we've seen a little bigger opportunity there.

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**John Kernan** - Cowen and Company - Analyst

Great. Thanks. And one longer-term question, the world's a lot different than it was when you held your analyst day last year. And you talked about a 10% organic growth rate going forward. Are you any less confident in that long-term growth profile of your portfolio? Thanks.

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

No.

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**John Kernan** - Cowen and Company - Analyst

Good answer. Thanks.

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**Operator**

Jim Duffy, Stifel Nicholas.

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**Jim Duffy** - Stifel Nicolaus - Analyst

Most of my questions have been asked and answered. Question on the e-commerce, however. Seemingly a driver across multiple brands, particularly in international launching a lot of sites and new geographies. What type of growth are you seeing in the e-commerce business at the corporate level and where do you see yourself sitting relative to the global e-commerce opportunity?

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**Steve Rendle** - VF Corporation - VP

Jim, this is Steve. I'll take that because I think the bulk of the e-commerce sales sits in the Americas outdoor and action sports space. We've seen really good historical performance there, based really on the platform that we've been able to establish both from the commerce but more importantly the content. And it's how we marry content to commerce and drive really strong conversion. But we have been seeing high 20%, low 30% growth rates and we continue to see that into this year.

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**Karl Heinz Salzburger** - VF Corporation - President, VF Europe, Middle East, Africa, Asia

Jim, on international side, you ask international and Karl Heinz here, we are behind US. As you heard me saying, we're just launching our e-commerce initiatives in Europe. We started with The North Face last year. We're adding countries this year. And Vans literally went live as I said on July 16 in seven countries. We're at a very, very early stage and clearly the growth numbers at this moment are extremely high. But we are starting from a low number.

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**Jim Duffy** - Stifel Nicolaus - Analyst

Very good. Thank you.



**Operator**

Thank you. And that concludes our question and answer session. I'll turn the conference back over to our speakers for any additional closing remarks.

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

Sure. This is Eric. We're thrilled with where we are halfway through this year. We're right exactly where we thought we would be on the revenue front and the economy is playing out as we thought. We are a little bit ahead of where we thought we would be in earnings for the year, and we're looking forward to the next six months and keeping you guys posted. Thanks a lot for being with us this morning.

**Operator**

Thank you. Ladies and gentlemen, this does conclude today's presentation, and you may now disconnect.

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