

FINAL TRANSCRIPT

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VFC - Q1 2008 VF Corporation Earnings Conference Call

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CORPORATE PARTICIPANTS

Jean Fontana

ICR

Eric Wiseman

VF Corporation - CEO, President

Bob Shearer

VF Corporation - CFO

CONFERENCE CALL PARTICIPANTS

Bob Drbul

Lehman Brothers - Analyst

Jeff Edelman

UBS - Analyst

Kate McShane

Citi - Analyst

Omar Saad

Credit Suisse - Analyst

Virginia Genereux

Merrill Lynch - Analyst

John Shanley

Susquehanna - Analyst

Todd Slater

Lazard - Analyst

Brad Stephens

Morgan Keegan - Analyst

Eric Tracy

BB&T - Analyst

PRESENTATION

Operator

Good day, and welcome to the VF Corporation first quarter 2008 earnings conference call. Please be aware today's conference is being recorded. At this time, I would like to turn the conference over to Jean Fontana of ICR. Please go ahead, ma'am.

Jean Fontana - ICR

Thank you. Good afternoon, and thanks for participating in VF Corporation's first quarter 2008 conference call. By now you should have received today's earnings press release. If not, please call 203-682-8200 and we'll get you a copy immediately following the call. Hosting the call this afternoon is Mr. Eric Wiseman, President and CEO of VF. Before we begin, we would like to remind participants that certain statements included in today's remarks and the Q and A session may constitute forward-looking statements within the meaning of the federal securities laws. Forward-looking statements are not guarantees and actual results may differ materially from those expressed or implied in the forward-looking statements. Important factors that could cause actual results of operations or financial condition of the company to differ are discussed in the documents filed by the company with the SEC. At this time, I would like to turn the call over to Eric Wiseman.

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Eric Wiseman - VF Corporation - CEO, President

Thanks. Good afternoon and thanks for joining us on today's call to discuss another record quarter for VF Corporation. Revenue growth of 10% was at the top end of our guidance and earnings per share growth of 14% was actually quite a bit better. Our outdoor coalition delivered another outstanding quarter of double digit revenue growth. Image wear results were solid and contemporary brands results are right on track. These results illustrate the power of VF's business model, strong brands and a lot of diversity in terms of products, geographies, and channels of distribution.

I am going to confine my remarks today to the areas that I believe are the most interest to those of you on the call and then I will turn things over to Bob Shearer who will provide more detail in the numbers. My first comment is about the current environment. Those of you on our February call remember how I said then that this was very challenging out there and that we did not expect any meaningful recovery in 2008. Well, the bad news is we were right and the good news is we were right and we planned accordingly. We're still seeing lots of promotional activity out there exacerbated by cooler than normal weather in much of the country which means that seasonal goods are moving slowly. We're not seeing a material change in order cancellations and delayed shipments, but retailers are tightening up the pipeline and becoming even more conservative in their inventory planning and orders. Against that backdrop, we feel very good about our first quarter performance. As we noted in the release, our international and retail businesses have powerful momentum and are working as a buffer against the difficulties in today's environment, particularly on the domestic side, and we expect this momentum will continue, which makes us comfortable with maintaining our annual guidance for 2008 with revenue and earnings per share expected to increase 9 and 10% respectively.

My second comment relates to our jeans wear results in the quarter, specifically on the domestic side. Given the current environment in both the mass and mid tier channels of distribution, it may not be surprising that our jeans business was down in the first quarter. Half of that revenue decline was due to disappointing over-the-counter performance driven in part by consumers migrating to the very lowest priced products. The other half was due to a combination of inventory reductions at retail, the shift in timing of certain programs in both our mass and Lee businesses and the slow start in seasonal products that I just mentioned. I'll also remind you we posted very solid gains from our mass and Lee businesses in last year's first quarter, so we're up against tough comps. On the plus side we're encouraged we're at least holding our share of market in most areas. In fact, we're seeing market share gains in our Lee business. The first quarter is not representative of what we expect for our jeans business for the year. We're looking forward to better results for jeans wear in the coming quarters as we indicated in the release.

Overall revenue comparisons for our global jeans business should turn positive starting next quarter and continue in the second half. While our domestic business is expected to run flat to down slightly for the next three quarters, difficult macroenvironment continues, we do expect continued growth in our international jeans business. On the domestic side we have large array of programs lined up for the second quarter and beyond, including innovative new product launches and door expansion programs that have been tested and proven successful. Internationally, we expect growth will be fueled by our continued expansion in China and in India as well as an additional seasonal delivery in Europe. My third comment relates to our second quarter guidance. While our full-year guidance remains in tact, the second quarter is a bit of an anomaly this year in part because VF is becoming a more seasonal company due to our acquired companies and more retail revenues.

A few key points I want to make about the quarter. First, our businesses remain very healthy as evidenced by the 10% revenue growth we expect in the quarter, half of which will be organic. In fact, with the exception of sportswear, we're looking forward to growth across our coalitions with another exceptionally strong quarter in outdoor. Second, higher levels of investment to support future growth, particularly in outdoor, will have a disproportionate impact on profitability in our second quarter which is our seasonally lowest period. Outdoor revenues should continue to grow at a double-digit rate, but operating margins will be below those reported in last year's second quarter as we continue to make investments necessary to support the continued growth of our strong outdoor businesses. Third, bear in mind that last year's second quarter included a \$0.04 benefit from the sale of the HIS trademarks which we obviously will not have in this year's second quarter and, fourth, the acquisition to 7 For All Mankind and Lucy will be dilutive to the tune of about \$0.02 in the quarter.

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My last comment relates to our outlook for the second half and the full year. We stated in the release that we expect healthy results in the second half of the year. Revenues should continue to grow at a rate of around 8% with double-digit earnings per share growth. These results are not contingent upon any meaningful recovery in the economy or consumer spending. They are contingent upon our ability to execute well-defined and developed plans in each of our businesses, and I am confident that we'll do just that. Now let's hear more from Bob Shearer.

Bob Shearer - VF Corporation - CFO

Thanks, Eric. Let's start at the top. As Eric indicated, our revenue growth of 10% was at the top end of our guidance of 8 to 10% growth. We're very pleased with the continued momentum in outdoor, the solid performance from image wear, and the contribution to revenues from our new contemporary brands coalition. As noted in the release, our international and owned retail businesses continue to be big growth drivers for us. Our international revenues rose 21% with double-digit increases in our North Face, Vans, Napapijri, Kipling, and Reef international businesses. In jeans wear, our international growth is being driven in gains in Europe and Asia as well as strong performance in Mexico and Latin America. Not only are our international operations big top line growth contributors, but during the first quarter they also drove significant profit gains from their higher than average profit margins. Retail revenues grew 24% with our Vans, North Face, Kipling, Napapijri, Wrangler and Lee brands each growing their retail businesses at double-digit rates. We ended the quarter with a total of 641 owned retail stores, opening 15 new stores during the quarter. For the full year we expect to open about 100 new stores with the significant number of those scheduled for the second quarter. These are all important factors in our growth expectations.

Looking now at total revenues. Favorable foreign currency exchange rates contributed to the increase in the quarter accounting for \$56 million or 3% of the revenue growth in the quarter and adding \$0.09 to earnings per share. The revenue contribution from acquisitions Majestic, 7 For All Mankind, Lucy, and Eagle Creek was \$141 million in the quarter, clearly a significant contributor to our revenue gain for the quarter. Our organic growth was lower than that experienced during recent quarters. However, our plans indicate more normal levels of organic growth beginning in the second quarter. Our gross margins jumped 160 basis points to over 45% in the first quarter. Mix accounted for 70 basis points of the improvement with the remainder rezoning from efficiency improvements, particularly in our U.S. jeans business. SG&A as a percent of sales rose by a smaller amount, 130 basis points, which includes a 70 basis point impact relating to the higher SG&A ratios of our expanding retail operations.

First quarter SG&A also includes the expenses related to the Nautica women's sportswear exit. Operating margins increased in our outdoor and jeans wear businesses. Our contemporary brands coalition reported operating margins of over 15% which also contributed to the overall higher margin levels in the quarter. Despite higher gross margins for the quarter, sportswear operating margins were lower for reasons I will discuss in a moment, while image wear margins were also below prior year levels due solely to the inclusion of a full quarter's worth of Majestic results. Now as to other details specific to individual coalition results, I think Eric pretty well covered the jeans wear results, so I would like to fill in a few more details related to sportswear's first quarter.

With revenues and operating income in sportswear below prior year levels, in our release we noted the primary factors affecting revenues were, first, the decision by a Nautica customer last year to reduce their product assortment. Second, lower sales of Nautica products to the off-price channel. We also noted that we recently decided to exit our women's wholesale sportswear business. Given the consolidation in the department store channel and the challenging environment in the women's better sportswear category, we weren't able to gain enough critical mass in this business and the expenses to support it have been pressuring profitability. This action resulted in expenses in the quarter of \$3 million and helps to explain the decline in sportswear's operating income and margins. Decision will favorably impact sportswear margins in the second half of this year and next year as well. In fact, we indicated that sportswear margins should recover to double-digit levels in the second half of this year.

Now, I should point out as well that Nautica continues to have healthy women's sleepwear and swim wear businesses, and that we will continue to offer women's apparel in select Nautica retail stores and through our e-commerce site. Wrapping up on sportswear, we continue to be pleased with the growth that we're seeing in our John Varvatos and Kipling U.S. businesses.

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Interest expense rose to \$22 million from \$14 million in last year's quarter related to acquisition borrowings. The tax rate was 33.3% in the quarter, a point below last year's rate, and is indicative of what we expect for the full year. Our tax rate has been declining as a result of the lower tax rates in our growing international businesses. Income from continuing operations increased 11% while EPS rose 14% on 3% fewer average shares outstanding in the quarter.

Turning now to the balance sheet. Inventories rose 13% in the first quarter, as is often the case with the required companies, inventory days within our most recent acquisitions are well above the VF averages. Inventory levels within our existing businesses increased by 6%, very much in line with organic revenue growth expected for the second quarter. Obviously the reduction in inventory levels in our recently acquired businesses represents an opportunity for cash generation by year end. And speaking of cash generation, cash generated from operations was negative for the quarter which is typical for our first quarter as we build working capital service our seasonally stronger quarters ahead. We continue to expect that we will generate about \$700 million in cash from operations for the full year. Our debt-to-capital ratio remains low at about 29%, and that's 25% net of cash on the balance sheet.

I would now like to provide some additional color on the second quarter. As indicated in the press release, we expect to see continued strong top line growth of approximately 10% with about half of the increase due to acquisitions and half from organic growth. And we expect to see the continuation of gross margin improvement in the quarter which should be up by about 100 basis points. However, due to increases in the relationship of SG&A expense to revenues and the fact that the 2007 second quarter included a \$7.5 million gain related to the sale of a business that's not repeated in 2008, our operating margin and earnings will decline. Operating margins are expected to be just above the 9% level in the second quarter while earnings per share should approximate \$0.80 per share compared with \$0.93 in last year's second quarter.

Profitability in the second quarter will be impacted by a number of factors with the single largest factor being heavier spending within our global outdoor businesses to support continued long-term growth. Now that includes investments related to expansion into new geographic areas, new retail store openings, and an increase in our global advertising spend. In addition, outdoors distribution expense as a percent of sales will increase as we take actions to assure on-time deliveries during the heavier shipping periods of the second half. Now also keep in mind that the second quarter for outdoor businesses represents only 18% of the total year's revenues. That means that the investments during the quarter stand out more than they would in other quarters due to the seasonality factor.

I want to be clear that while the second quarter will be impacted by the spending levels within our outdoor businesses, these businesses remain very strong. In fact, that is the reason that we're willing to make the investments we outlined. While operating margins for outdoor in the second quarter could be down 300 basis points, full-year operating margins for this coalition should improve by 50 to 100 basis points and that includes the incremental spend during the second quarter. Now, there are two other factors impacting the second quarter, although to a much lesser extent than outdoor. First, our sportswear business will again be up against the tougher comps of last year's second quarter. As in the first quarter, the loss of revenues from major customers impacting the expense to sales relationships within this coalition. Revenue and profit comparisons for the second half of the year will improve within our sportswear coalition while first half revenues are expected to decline by about 7%, second half revenues should increase by 2 to 3%, due to the easier comps versus last year and improved assortments in our retail stores.

Profitability improvements will result from the exit of the women's business and improve performance within our own retail business where mark down activity was severe during the latter part of 2007. Our buying practices for 2008, in terms of quantities and assortments, will result in lower risk for our store operations. In addition, while our contemporary brands were accretive to the first quarter, the second quarter for these businesses represents only 20% of their full year revenues and this seasonality impact will result in these brands being dilutive to the second quarter by about \$0.02 per share. Again, this is a seasonality issue related to the changing relationships of quarterly results within VF. The full year contribution related to these new business sincerely expected to be about \$0.10 per share.

Finally, related to the second quarter, it is important to understand that, one, we did expect that the second quarter would reflect the change in seasonality of our business, as I have just outlined. Two, the heavier spending in outdoor was planned

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and, three, our full-year projections continue to indicate an improvement in our operating margins of about 40 basis points. Now a few comments on our full-year expectations. As indicated in the press release, we are confirming our full year guidance of 9% top line growth and 10% growth in earnings per share. As Eric indicated, the environment isn't getting any easier, but taking into account current conditions, we're confident in confirming this strong performance. Eric.

Eric Wiseman - VF Corporation - CEO, President

Thanks, Bob. Before we take your questions, let me close by highlighting why we're so confident in our 2008 guidance. First, our projections include the benefits of new store rollouts and the strong performance of our retail operations, including the anticipated improvement in profitability that results from our growing retail scale and higher mix of full price stores to outlet stores. Second, our projections include a continuation of the strong growth in profitability of our international operations as seen in the first quarter. Third, our forecast anticipates the continuation of the growth within our outdoor businesses both in the U.S. as well as overseas based on existing bookings. Fourth, our jeans wear revenues are expected to stabilize so annual revenue for 2008 should approximate 2007. We demonstrated in the first quarter that we can maintain or improve the profitability of these businesses in this challenging environment. Fifth, our sportswear comparisons should improve to a level where annual revenues and earnings are about equal to prior year amounts as we comp against a particularly challenging second half of 2007 and benefit from the exit of the women's sportswear and, finally, our contemporary brands should continue to provide strong contribution to our 2008 results. We would be delighted to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) We'll take our first question from Bob Drbul with Lehman Brothers.

Bob Drbul - Lehman Brothers - Analyst

Hi. Good afternoon. Eric, I guess the question I have for you, you guys touched on it a little bit. Can you elaborate more on the pickup in the spend on the outdoor side in terms of exactly what you're going to be spending the money on, the advertising, can you put any metrics around the timing of it in terms of why you're doing it right now, and just maybe just elaborate a little bit more from that side?

Eric Wiseman - VF Corporation - CEO, President

Yes. I don't have, Bob, specific dollar amounts by initiative. I will talk about the types of initiatives for you though. We have significant new store openings in outdoor in the second quarter that require immediate investment, and those stores we know are outdoor stores work for us and will deliver for us in the second half and beyond. Second, we're launching the North Face e-commerce site on August 1. The North Face marketing site goes live June, and we're staffing up and investing to create what we think is going to be a killer e-commerce sight for VF Corporation. We're also investing in marketing in both Vans and the North Face. We're investing in people and an advertising budget in this quarter to drive our business in the second half. Those are the three front-end oriented things. And, last, as you can imagine with the growth of the North Face, it strains our distribution center's operations to get the goods out in the third quarter. We move so much volume in the third quarter we're bringing staff on board in the second quarter to get organized and prepared to make the shipments that we know we can make in the third quarters because we're going to have the inventory, and we definitely have the orders.

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Bob Drbul - *Lehman Brothers - Analyst*

Great. Just a follow-up for Bob. On the foreign exchange in the \$0.09 for the quarter, how should we think about that going forward in terms of this new guidance? What do you anticipate or how have you factored that into your full-year guidance?

Bob Shearer - *VF Corporation - CFO*

Yes, Bob, we've taken a pretty cautious view, frankly, relative to the specifically to the Euro which is by far what impacts us more than anything else. As a matter of fact, the \$0.09 actually captures most of the benefit that we expect to see for the full year. Again, if the Euro stays anywhere close to the 160 mark, which is whether we are today, there is obviously some upside there. So we have taken a cautious view. So, again, most of it, nearly all of it, the \$0.09 represents nearly all of the benefit that we anticipated for the full year.

Bob Drbul - *Lehman Brothers - Analyst*

Great. Thank you very much. Good luck.

Operator

We'll take our next question from Jeff Edelman with UBS.

Jeff Edelman - *UBS - Analyst*

Thank you. Good afternoon.

Eric Wiseman - *VF Corporation - CEO, President*

Hey, Jeff.

Jeff Edelman - *UBS - Analyst*

Eric, could you address the jeans wear business a little bit more in terms of said there was trading down to some of your lower price points as well as some retailer cutbacks in inventories. A lot of this has been replenishment business anyway, so have the stores reduced their stocks and now you're at a lower level, you expect sales to be better, and could you talk about the price point issue and why things should level off as we get into the second, third quarters?

Eric Wiseman - *VF Corporation - CEO, President*

Sure. We do think that some of the what happened in the first quarter will not be repeated. Let me talk about those things first.

Jeff Edelman - *UBS - Analyst*

Okay.

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Eric Wiseman - VF Corporation - CEO, President

First we did have the retailers did reduce their inventory as consumer trends got more and more negative in the first quarter. The inventory expectations declined, and there was less replenishment because there was less consumer take away, and people were aiming at lower inventory targets, so that definitely affected us. We think we're at stable inventory levels now. Second, it was cool out there. The seasonal businesses across all channels are off to a very slow start this year. It will get warm and that stuff will sell, but it did get off to a lower start. We think the combination of those two events was responsible for about half of our decline in business in the Americas. Onto the other side of it, there is just plain a consumer slowdown out there that has taken part of the other pieces of the slowdown and on top of that in times like this consumers, some consumers flock to more value price points. That happens in every channel of distribution where people that were shopping in upper scale department stores that are moving down channel, there are people from mid-tier moving to mass, and people within mass going to the very lowest price point. As that happens and people go to the very lowest price point in the mass channel, that's not where our strong brands exist nor where we want them to exist, so that's affected us as well. Did that help you, Jeff.

Jeff Edelman - UBS - Analyst

Yes, it does. Bob, for you, is the first quarter a seasonal low for 7, in terms of profitability?

Bob Shearer - VF Corporation - CFO

Actually, Jeff, the second quarter is more so.

Jeff Edelman - UBS - Analyst

Okay.

Bob Shearer - VF Corporation - CFO

The first quarter is stronger than the second quarter.

Jeff Edelman - UBS - Analyst

Because based on the numbers you throw out in terms of the contribution to sales as well as operating profit, it looked as if those businesses had a roughly a 15% operating margin in the first quarter which I believe is a good bit below where we were looking at expectations for the year, so is there something else that my have depressed profitability in those numbers?

Bob Shearer - VF Corporation - CFO

Have you to remember, Jeff, that when we talk about the acquisitions, it includes -- it does include 7 For All Mankind, includes Lucy, includes Majestic, Majestic that wasn't owned in the prior year, so it includes all of those, all of those pieces.

Jeff Edelman - UBS - Analyst

Okay. I will let it go. Thanks.

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Operator

Next from Citi we'll hear from Kate McShane.

Kate McShane - *Citi - Analyst*

Hi. Good afternoon.

Eric Wiseman - *VF Corporation - CEO, President*

Hi, Kate.

Kate McShane - *Citi - Analyst*

Can you talk a little bit about what you're seeing internationally? A large portion of your growth came from strong results internationally and we're hearing western Europe in particular is getting significantly weaker. Does your guidance incorporate a weaker international environment and can you quantify how much exposure you have in some of the western European countries?

Eric Wiseman - *VF Corporation - CEO, President*

Our international --the good news for us is our international businesses is becoming more and more diverse as well. First of all, we have seen a modest slowdown in the western European markets and that is reflected in our guidance for the year and in all of our forecasts. The flip side of that is in India and in China and in Russia and in Latin south America we're seeing strong growth, so all of that comes together in our international numbers and it is all reflected in our forecast, including some new softness in western Europe. We've captured all of that in your numbers, we think.

Kate McShane - *Citi - Analyst*

Okay. And a different question, can you quantify what the backlog was for the North Face for winter 2008?

Eric Wiseman - *VF Corporation - CEO, President*

We haven't traditionally been talking about backlogs. What I will comment on is that we've said that our outdoor businesses will grow in the mid-teens rate this year, and I will tell you that we have the bookings to support that right now.

Kate McShane - *Citi - Analyst*

Okay. Thank you.

Eric Wiseman - *VF Corporation - CEO, President*

Thank you.

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Operator

We'll take our next question from Omar Saad with Credit Suisse.

Omar Saad - Credit Suisse - Analyst

Thank you. Wanted to follow up a little bit on one of the previous questions your kind of overall macro outlook. When you gave guidance last, I think it was in February on your call, and you reiterated it today, it seems to me like the environment has probably gotten a little bit worse since then. Can you help us understand exactly what your macro expectations are for the second, third, and fourth quarters? Do you think the environment -- you're assuming the environment is going to stay this bad? Are you assuming it is going to get materially worse or improve a little bit? Can you help from us a broad perspective understand what's embedded in your guidance?

Bob Shearer - VF Corporation - CFO

I think in general we assume it is going to stay this bad. We're not expecting any improvement. We're not expecting a deterioration.

Omar Saad - Credit Suisse - Analyst

Perfect. All right. Another question, switching gears.

Bob Shearer - VF Corporation - CFO

That's really not a perfect world, I will add, but that's what we're expecting.

Omar Saad - Credit Suisse - Analyst

That's perfect. That's a good answer. It is helpful. On the women's bid with Nautica, you're kind of walking away from that business. Can you help us understand women's has been such a tough category for so many companies the last couple of years but it is such a huge part of the branded apparel world out there. Can you help us understand, what is your exposure to the women's side of the business and what do you see as the opportunities there either in your existing brands or in acquisitions, and how do you increase if you want to increase that exposure?

Eric Wiseman - VF Corporation - CEO, President

Well, it is a complex question because we have to talk about that question from a lot of angles. For example, in our Lee business in the mid-tier is very strong with women's and we're gaining share in the mid-tier channel with our women's business. The same, we have a strong women's business in the mass channel as well. The North Face has a growing and strong women's business in both sportswear and outerwear. I think the traditional department store kind of better sportswear lines are really, really struggling and that's where I think you've seen some of the other companies really struggle, and we struggled to get a foothold in that space while we launched the Nautica women's initiative into what probably couldn't have been worse timing in that space in the department store pad. The other side of that, as I said, we have -- we're having some success with women's. We think our businesses like 7 For All Mankind are having terrific growth in the contemporary space with women and that sector, the contemporary space, seems to be growing and we don't see that slowing down much.

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Omar Saad - *Credit Suisse - Analyst*

Do you have an idea of what kind of your overall percent of your business is women's?

Eric Wiseman - *VF Corporation - CEO, President*

I don't know that. I don't.

Omar Saad - *Credit Suisse - Analyst*

Okay. One last question. The switch to lower price point product in the jeans business, are you saying that there are some customers who are trading out of the Riders and the Wrangler and Lee sub brands to private label?

Eric Wiseman - *VF Corporation - CEO, President*

I think there are people who are trading out of mid-tier to mass. I think within mid-tier there are people moving to Lee where we have a lower price point in that channel relative to the competition, and we are gaining share, and we're gaining share partly because we have great products and partly because of the pressure on price. In the mass channel there has been some movement to the lowest price point. It is a very minor movement. It is not like there is a mass herding mentality thing going on there, but my guess would be kind of low single-digit erosion from us moving towards those price points.

Omar Saad - *Credit Suisse - Analyst*

Perfect. Thank you.

Eric Wiseman - *VF Corporation - CEO, President*

Thank you.

Operator

Next we'll hear from Virginia Genereux with Merrill Lynch.

Virginia Genereux - *Merrill Lynch - Analyst*

Thank you.

Eric Wiseman - *VF Corporation - CEO, President*

Hi, Virginia.

Virginia Genereux - *Merrill Lynch - Analyst*

Hey, Eric and Bob and Cindy. How about if you guys can talk about any seasonality of your international business, Bob. It was 27% last year, I think you said 36% in the first quarter which is a pretty nice growth rate. Is it pretty consistent across the quarters or do you have quarters that are bigger internationally?

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Bob Shearer - VF Corporation - CFO

We do have quarter that is are bigger and actually as a percent of total, that's the way I will speak to it, Virginia, it is not necessarily dollars but as a percent to our total business in each quarter, actually the first quarter is one of the larger quarters, so I mentioned 36%. Actually in the second quarter that declined somewhat. It would be closer to 27% level and for the full year right now we're looking at our international businesses being about 30%, so there is some seasonality there as well.

Virginia Genereux - Merrill Lynch - Analyst

That's great, but I think you said to Bob Drbul that you have a pretty conservative currency forecast. It doesn't sound like you think the Euro is staying at \$1.60 or whatever.

Bob Shearer - VF Corporation - CFO

Yes. Generally it has been our practice to take a fairly conservative view, so for the second half we have it planned a lot closer to the 1.40 which is not all that far from where we were last year. Again, we just have not filled not in the kinds of relationships we're seeing today.

Virginia Genereux - Merrill Lynch - Analyst

Yes. Well, that's good. But I think you're low, Bob Shearer.

Bob Shearer - VF Corporation - CFO

Maybe.

Virginia Genereux - Merrill Lynch - Analyst

You'll take it. Anyway, Eric, what would you say as you think about organic growth, and you mentioned dynamics that pressured organic growth this quarter, I think you're looking for 5% or so in the second quarter. Kind of going forward what do you think we should think about as the rate of organic growth for the portfolio and the contributors to that? That's a tricky one.

Eric Wiseman - VF Corporation - CEO, President

It is a complex question. When we gave our guidance for the future of VF a few months ago, we said that we think we can get 6 to 7% organic growth. We absolutely still believe that. There will be quarters and times when we exceed that over the next five years and there will be quarters and times when it is more challenging, but we absolutely think that's the kind of numbers we can post with the brand portfolio that we have. It is really complicated, Virginia, to get a lot more specific about that because have you to think through every market, every brand, every situation. We have businesses that are far exceeding that right now, our outdoor businesses and our contemporary businesses are delivering organic growth at a much stronger rate than that in this particular quarter. Our domestic jeans wear business delivered at a much lower rate than that. Part of that is ongoing and part that we think will go away.

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Virginia Genereux - *Merrill Lynch - Analyst*

That's helpful. How did you guys sort of manage the inventories so well, Bob? I mean, historically there have been rare occasions where a slow down in replenishment would kind of back up on you guys in your own manufacturing facilities and is it doesn't seem like if you're kind of organic inventories were up 6 or 7, it doesn't seem like, and currencies were probably a big contributor to that, doesn't seem like that's an issue. How did you manage the inventories that well kind of in your own facilities and Nautica for that matter?

Bob Shearer - *VF Corporation - CFO*

You're absolutely right, Virginia. It really related to taking a cautious view in the environment and you're absolutely right. I mean the point there is when you look at the jeans wear possibility, a challenged quarter to be sure top line, but really did a good job of actually improving the profitability a bit and perhaps you're right on. A lot of that does have to do with controlling those inventories. So we did. We took a very cautious look in terms of building inventories and if we have to chase a bit, we will. And also particularly in jeans wear, which is one of the bigger swing factors especially in this first quarter, we do have, continue to have a fair amount of our own manufacturing, our own manufacturing so we have the ability to do that a little bit better than some of the other areas.

Virginia Genereux - *Merrill Lynch - Analyst*

But you're not seeing, Bob, any pressure from idling the facilities.

Bob Shearer - *VF Corporation - CFO*

No. No, we're not.

Virginia Genereux - *Merrill Lynch - Analyst*

Okay. That's great. Lastly, Eric, and Bob, any comment on input costs? That's still a big issue latter part of this year and maybe if you have any visibility into '09. You guys gave us some good commentary on that in early January, but any update there?

Eric Wiseman - *VF Corporation - CEO, President*

We're just beginning to get visibility into 2009, probably not the right time of year to be discussing that because I am not sure we have all of that sorted out. We are seeing some cost price pressure this year and all of that is incorporated in our expectation that we can deliver 10% earnings per share growth this year.

Virginia Genereux - *Merrill Lynch - Analyst*

That's great. Keep it up.

Eric Wiseman - *VF Corporation - CEO, President*

Thanks.

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Operator

We'll take our next question from John Shanley with Susquehanna.

John Shanley - *Susquehanna - Analyst*

Thank you and good afternoon.

Eric Wiseman - *VF Corporation - CEO, President*

Hey, John.

John Shanley - *Susquehanna - Analyst*

Eric, I wonder if you can give us some ideas of what you're planning on doing to stimulate the jeans business domestically? Are there some game plans that you have in works that basically are going to allow you to get back to where you were at this time last year or basically just going to be riding the market based on what's happening out there?

Eric Wiseman - *VF Corporation - CEO, President*

Yes. I think we do have a initiatives that will help us have a better jeans business than we had in the first quarter. In fact, we know that. Part of that is we've had a lot of programs and test out there at retail that our new product innovations, and those tests have been successful, and we're getting massive door rollouts behind them once those tests have proven successful. Those rollouts didn't happen in the first quarter, but they will happen in the second and third quarter. The other thing that will not be happening to us, we don't think, is we won't be going through the inventory reduction that we went through in the first quarter to get to the inventory platform that we're at right now, so we think that will stabilize. We're not expecting any improvement in the overall business. It really will come down to us gaining share by having new programs running in every channel in distribution. The seasonal business also was a big deal in the first quarter. We just didn't have a warm first quarter and it is kind of tricky because they kick in early. You have a great first quarter and when it is cooler out and they don't, that business moves to the second quarter and it will get warm and we'll pick up that business as well.

John Shanley - *Susquehanna - Analyst*

I see. Looking at it from regardless of the brands or channels of distribution, do you think you're maintaining or gaining market share in the domestic jeans market?

Eric Wiseman - *VF Corporation - CEO, President*

We know for certain because we have data that supports it from NPD that we're gaining market share in the mid-tier channel with the Lee brand, so that's a big piece of our business. We also believe upstairs in the contemporary space with 7 For All Mankind that we're gaining share. I think in the mass channel we're holding share overall in the mass channel if you look across men's, women's and kids with a little movement back and forth, but I would say we're probably flat in share there.

John Shanley - *Susquehanna - Analyst*

Okay. Switching gears a little bit. The announcement of the elimination of the women's sportswear product line, is that going to be made up in terms of revenue by increasing the men's portion of the business in the Nautica brand?

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Eric Wiseman - VF Corporation - CEO, President

To put some shape around that, the reason we got out of that business is it was an incredibly small business. It will probably not be noticed in a year-on-year comparison with or without that business. It was, however, a business that we lost money in and we decided to focus our effort and energy and resources on the men's business. Hopefully that will result in lift in the men's business. It won't take a lot of lift to replace what we're giving up.

John Shanley - Susquehanna - Analyst

Okay. Fair enough. Last question I have is can you tell us the number of stores that you had open at the end of the quarter?

Eric Wiseman - VF Corporation - CEO, President

I am sorry, the number of stores we had --

Bob Shearer - VF Corporation - CFO

641 were opened as of March 31.

John Shanley - Susquehanna - Analyst

Super. Thank you very much.

Eric Wiseman - VF Corporation - CEO, President

Thank you.

Operator

(OPERATOR INSTRUCTIONS) Next we'll hear from Todd Slater with Lazard.

Todd Slater - Lazard - Analyst

Thanks very much and congrats. It seems like a lot of the questions have been asked. Just have a couple of quick follow-ups. First, if you could remind us, you said the Nautica women's was I think a \$0.02 drag in the first quarter.

Bob Shearer - VF Corporation - CFO

Right.

Todd Slater - Lazard - Analyst

The piece you're getting out of?

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Bob Shearer - VF Corporation - CFO

The expenses related to the exit of that piece of the business were worth \$0.02 per share.

Todd Slater - Lazard - Analyst

I see. Okay. Was that business -- if you look at the second, third and fourth quarter of last year, was the Nautica business a -- can you quantify the drag on earnings, if any?

Bob Shearer - VF Corporation - CFO

Yes. It was during the latter three quarters it has been costing us pretty close to \$0.05 a share. So it has been a drain.

Todd Slater - Lazard - Analyst

On a quarterly basis?

Bob Shearer - VF Corporation - CFO

No, on an annual basis.

Todd Slater - Lazard - Analyst

On an annual basis. Okay. All right. Then just on the retail store count, if you could just remind us what your full price number will be to outlet stores? I think you said you're adding 100 this year. So as we go through the year, what is the ratio now and what will it be at the end of this year full price to outlet?

Bob Shearer - VF Corporation - CFO

I don't have those specific numbers, but I can tell you this, that the ratio of new store openings full price versus outlet is pretty close to 3:1 this year.

Eric Wiseman - VF Corporation - CEO, President

Full price.

Todd Slater - Lazard - Analyst

Can you remind us not the exact numbers, sort of roughly what the breakdown is on the current space?

Bob Shearer - VF Corporation - CFO

Right now it is -- right now it is about 10% -- 60% full price, 50 to 60% full price, so 40 to 50% outlet.

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Todd Slater - Lazard - Analyst

Got it. Okay. That's great. Thanks a lot. All the best.

Operator

We'll take our next question from Brad Stephens with Morgan Keegan.

Brad Stephens - Morgan Keegan - Analyst

Hey, good afternoon. Two quick ones. Bob, can you walk us through the third quarter and fourth quarter just kind of directionally if you expect the back half to be up 15%, is it more weighted towards one quarter or the other?

Bob Shearer - VF Corporation - CFO

I tell you, Brad, it is pretty consistent with the kind, the growth is fairly consistent in the third and in the third and fourth quarters, so given the seasonality overall of those businesses historically not a lot of change.

Brad Stephens - Morgan Keegan - Analyst

Okay. And then, second, I think you said in the last call that your Vans bookings were flat for the first half and you expect to see improvement as the year progressed. Can you give us an idea if you did see that improvement?

Eric Wiseman - VF Corporation - CEO, President

Yes we did. In fact, Vans had a better first quarter than we thought they were going to have.

Brad Stephens - Morgan Keegan - Analyst

And going into the rest of the year? There has been concern about the space.

Eric Wiseman - VF Corporation - CEO, President

I don't have Vans forecast for the year in front of me, but I believe it is up from our original plans.

Brad Stephens - Morgan Keegan - Analyst

All right. Thanks.

Eric Wiseman - VF Corporation - CEO, President

Thanks, Brad.

Operator

We'll hear from Eric Tracy with BB&T.

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Eric Tracy - *BB&T - Analyst*

Good afternoon. Just wanted to follow up on the input costs and obviously just the general macro weakness, Eric or Bob, if you could maybe just talk about the potential levers that you have to pull sort of within the supply chain or some sourcing initiatives that you can implement to extract margins going forward?

Eric Wiseman - *VF Corporation - CEO, President*

Well, as we've historically done, we're very, very careful relative to where we place goods, so we try to never get overweighted in any one country, so that has been very, very good for us. For example, we're not overweighted in China where we are seeing some cost inflation to be sure. What we tried to do is keep again a more flexible approach to our sourcing and that's worked very well for us.

Eric Tracy - *BB&T - Analyst*

But is there anything within say specific coalitions that have more opportunity to again sort of extract some margins through sourcing than others I guess is maybe what I am trying to get at?

Eric Wiseman - *VF Corporation - CEO, President*

I wouldn't say necessarily coalition by coalition. What I would say is that some of our newer coalitions and newer businesses are still aren't quite as efficient as our heritage businesses have been where we have engineered our own plants in many cases and also taken that those same benefits to our sourcing partners, so we do continue to see some opportunity there, a little bit more in our lifestyle businesses I guess is what I am saying rather than our heritage businesses.

Eric Tracy - *BB&T - Analyst*

Okay. Fair enough. Thanks, guys.

Operator

At this time we have no further questions coming in. Mr. Wiseman, I will hand the conference back to you for any closing comments.

Eric Wiseman - *VF Corporation - CEO, President*

Thank you for joining us and I will make a quick closing comment. Earlier this year we talked about guidance for the year of 9% earnings growth or 9% revenue growth and 10% earnings per share growth, and we are very encouraged by the progress we made in the first quarter delivering 10% revenue growth and 14% earnings per share growth. We're also completely committed to making investments in the second quarter behind what has been our best growth story in outdoor. We're going to spend the money we need to spend to support this business and we know that when we do that we'll deliver a year that will be exactly what we promised, 9% revenue growth and 10% earnings per share growth. Thanks so much for joining us.

Operator

That will conclude our conference. Thank you all for your participation today. We do hope you enjoy the rest of your day.

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