

FINAL TRANSCRIPT

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VFC - Q3 2008 VF Corporation Earnings Conference Call

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CONFERENCE CALL PARTICIPANTS

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Credit Suisse - Analyst

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PRESENTATION

Operator

Good day and welcome to the VF Corporation third quarter 2008 earnings conference call. Please be aware that today's conference is being recorded. At this time I would like to turn the conference over to Ms. Jean Fontana. Please go ahead.

Jean Fontana - VF Corporation - IR

Thank you. Good morning and thanks for participating in VF Corporation's third quarter 2008 conference call. By now you should have received today's earnings press release. If not please call 203-682-8200 and we will get you a copy immediately following the call. Hosting the call this morning, is Mr. Eric Wiseman, President and CFO of VF. Before we begin, we would like to remind participants that certain statements included in today's remarks in 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 Rick Wiseman.

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Eric Wiseman - VF Corporation - President & CEO

Thanks, Jean. Good morning and thanks for joining us. As you saw in this morning's release, we announced record third quarter results, and we indicated that we expect record results in the fourth quarter as well. I'm extremely proud of the achievements of our brands and the VF team in what is certainly a challenging environment. We're expecting 2008 to be the record year in our 109 year history, which speaks volumes, I think, about the strength of our business model and our people. And we've consistently said that we're not immune to market challenges but we do believe we're positioned better than most to withstand them successfully. First, because of our diversity in brands, product categories, geographies, and channels of distribution. Second, because we build a portfolio of some of the most powerful brands in the industry which will continue to attract customers in both good times and bad. Third, because we have a sound long-term plan for growth and a long track record of superior execution. And fourth, because we have a team here at VF that's passionate about winning, experienced as facing and overcoming challenges, and committed to delivering superior results.

Now, with that as a backdrop, this morning we announced record third quarter revenues and earnings. Earnings per share rose 13% in the third quarter. We exceeded our earnings per share guidance which called for an increase of 9% with the help of additional tax credits, but we are right in line excluding the unusual items. Revenues were up 6.4% which was below our original target of 9%, but that is probably not surprising, given the slowdown at retail that began to accelerate in September. We also announced that we continue to expect record revenues and earnings in the fourth quarter. Since market conditions have become much more difficult than we could have possibly foreseen, we are tempering our outlook and lowering our fourth quarter guidance for both revenues and earnings. I should also point out that we did announce an increase in our quarterly dividend rate from \$0.58 to \$0.59 per share, 2008 will mark our 36th consecutive year of higher dividend payments to our shareholders. More specifically, regarding the change in our fourth quarter guidance, recent global financial challenges have led to us reduce our expectations for the upcoming holiday season. Our previous guidance was for an 8% revenue increase and a 20% earnings per share increase. We now expect a 3% to 4% increase in revenues and a 1% to 5% increase in earnings per share. We're planning for higher revenues in our outdoor and contemporary brands coalitions while we anticipate slightly lower revenues in our jeans wear and image wear coalitions. Operating margins should be flat to up slightly with continued expansion in gross margin as our retail revenue growth continues. At the same time, we're not going back on advertising and product development investments. In fact, we're planning higher spending in both areas in the quarter versus last year to keep our brands front and center with consumers. I want to stress that the change in our fourth quarter guidance is entirely related to recent external market conditions, both here and abroad, and not to brand-specific issues. As you know, we've met or exceeded our plan in each of the first three-quarters. However, we now believe that consumers will be much more selective in their spending, and we believe VF is well positioned to get our fair share of that spending on apparel, given our strong brands and our global reach. We remain confident in the health of our brands, their long-term prospects for growth and in our ability to achieve our long-term targets of \$11 billion in revenue and a 15% operating margin by 2012.

Now, next, you may be wondering, given these conditions, how are we approaching or planning for next year. In terms of how we're planning for next year, I'd say realistically and cautiously. I'll not make any specific comments about our revenue or earnings expectations for next year at this time but I can say that we anticipate that economic conditions will remain challenging throughout 2009 and that we are planning accordingly. We will aggressively manage our costs and continue our focus on inventory control and as I mentioned previously, we have a long track record of superior execution in both good times and bad and we'll deploy these skills in full to navigate our way through the challenges we face today. One question also related to next year that we hear a lot is about what we're seeing in terms of cost inflation and to what degree we can raise our prices next year. We've said that at this point we expect a net increase in costs of about 3% for the first half of next year. And we believe our size and diverse sourcing platform provide us with the competitive advantage in this environment and we'll continue to work aggressively to manage the impact of cost inflation throughout the year. At this point we believe we can offset most if not all of this increase in costs through selective price increases, particularly in those cases where we're bringing new product innovations to market. Another question you might have is how the credit crunch is affecting us and our ability to fund our operations. Fortunately, and this will come as no surprise, our financial condition is very solid. We have no liquidity issues, and our cash flow is strong. And now I will turn the call over to Bob Shearer who will provide additional details on the quarter. Bob?

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Bob Shearer - VF Corporation - SVP & CFO

Thanks, Eric. I will start with highlights of the quarter. As Eric mentioned, third quarter revenues rose 6.4%. This was driven by continued momentum in our outdoor coalition and a strong contribution from our new contemporary brands coalition. In this challenging environment, jeans wear, image wear and sports wear each reported modest revenue declines in the quarter. Now, you recall that we previously anticipated a 9% increase in third quarter revenues. The shortfall was pretty much across the board reflecting weakening economic conditions as well as the impact of a strengthening dollar which accounted for about 1% of the roughly two percentage point difference versus guidance. As you're no doubt aware, the market weakness has extended to Europe and other international markets and our business there was softer than previously anticipated. However, international revenues still grew by a very healthy 22% in the quarter driven by also a 22% increase in our international outdoor business as well as continued growth in our jeans wear businesses in Asia and Latin America. In the quarter, international revenues accounted for 34% of total revenues. By year end, we expect international revenues to account for 30% of total revenues. So, we are making very good progress toward our goal of achieving one-third of total revenues from international markets by 2012.

Now, expansion in our direct-to-consumer businesses has also been fueling our growth this year as noted in the release. Our retail revenues were up 12% in the quarter and accounted for 14% of total revenues. Again, we're certainly feeling the impact from the slowing economy in our retail businesses. But we also noted that we achieved double-digit growth in retail revenues in our Vans, The North Face, Kipling, Napapijri, John Varvetos, Lucy, and Lee Brands in the quarter. For the full year, retail revenues should account for 15% of our total revenues. So again, we are making progress as we look for retail revenues to account for 22% of total revenues by 2012. We opened a total of 20 stores in the quarter, the brands accounting for most of those new stores were Vans, The North Face, 7 For All Mankind, and Napapijri. In the fourth quarter, we're on track to open an additional 30-plus stores. And that will bring us to approximately 90 new stores opened in 2008, and that's right in line with our target of opening 75 to 100 new stores this year. Our retail stores continue to perform very well for us. We have a very disciplined process by which we approve new store openings. We track their financial performance very carefully, and we'll continue to invest in opening new stores across our strongest brand concepts.

Now, turning next to gross margins, as you saw in our release, gross margins continued to expand in the quarter rising by 50 basis points. This improvement is driven by our growth in lifestyle businesses with our retail revenue growth being a primary contributor to the expanding gross margins within these brands. SG&A as a percent of revenues grew by 60 basis points in the quarter. The cost reduction initiatives and charge related to unremitted taxes and duties referred to in the release accounted for 50 basis points of that increase, or \$12 million. The cost reduction initiatives were concentrated primarily in our jeans wear and sports wear coalitions and totaled \$5 million. The annualized benefit from these actions in future periods will total \$8 million. And as to the charge for unremitted taxes and duties during the quarter, we recognized a duty and tax related issue, now, that's VAT, within our 7 For All Mankind business, that arose prior to our acquisition of the brand. And that gets us to the operating income line. Our operating margins were about flat with prior year levels but the cost reduction and tax and duty charges of \$12 million I just discussed impacted operating margins by 50 basis points. So, on an apples-to-apples basis, operating margins would have been above prior year levels.

Now, looking at operating margins by coalition we saw the benefits of continued strong volume growth as well as expansion in our very profitable international businesses contribute to an 80-basis-point improvement in outdoor operating margins, and we also saw higher margins in our sports wear coalition. And you'll recall that we indicated that we expected to see sports wear margins return to double-digit levels by the fourth quarter. We're pleased to see sports wear operating margins above 10%, particularly since it includes expenses related to some organizational changes that were included in the cost reduction initiatives that I discussed earlier. The total cost for those actions included in the sports wear operating income number was \$1.5 million. Jeans wear margins were down as the level of promotional activity, particularly in the US, picked up during the quarter. In addition, higher sales of lower margin, new fashion product, moved gross margins lower. The jeans wear operating margin also included the impact of cost reduction initiatives that totaled \$2.4 million in the quarter. Now, the operating margin in our contemporary brands coalition reflects a charge of \$6 million related to the tax and duty issue that I previously mentioned, and that impacted this coalition's operating margin by 630 basis points in the quarter. Now, we were also pleased by the operating

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margin increase achieved by image wear in the quarter. Our income tax rate in the quarter was 28.3% compared with 33.7% last year as mentioned in the release. We benefited from a significant tax credit in the quarter which accounted for the lower tax rate. And that brings us to the 13% increase in EPS in the quarter. The \$2.10 we reported includes the net benefit of \$0.07 from the tax credits and unusual items. The tax credits benefited EPS by \$0.14 per share while the cost reduction initiatives and tax and duty provision cost us \$0.07 in EPS in the quarter. Now, also, versus our guidance, EPS was negatively impacted by \$0.03 per share from the stronger dollar.

Now, a few words on our balance sheet and financial condition as Eric noted. Our financial position remains strong. In the release, we noted that cash flow from operations is expected to be between \$650 million and \$700 million this year. By year end we expect to pay down our outstanding commercial paper, which is approximately \$360 million. And we also expect cash on the balance sheet to be above the \$226 million recorded as of the end of the third quarter. We have \$1.3 billion in lines of credit through a strong diversified base of domestic and international lenders, and no long-term debt repayments due until October of 2010. Considering the environment, our management of working capital is an area where we put intense pressure on our operating units and our results reflect our progress. With days outstanding and our receivables actually down a bit and our increase in inventory in line with our Q4 top line growth expectation. Now, as we look toward the end of the year with continued pressure on controlling our inventory levels, both within VF and at retail, we believe that inventory comparisons will show further improvement. We now expect the 2008 year end inventory levels will be only a couple of percentage points above 2007. Our debt to total capital ratio was 28.8% at the end of September, net of cash, this ratio would be 25.7%, barring any acquisition activity between now and year end, our debt-to-cap ratio by year end should be in the low 20s and on a net of cash basis, below the 20% level.

Now, to follow up on Eric's comments on the fourth quarter guidance we're now expecting a 3% to 4% increase in revenues. That's all organic growth, versus our previous expectation of an 8% increase. On the top line, two percentage points of the difference is related to the assumption of a stronger dollar versus our prior guidance, when our assumption was that the Q4 Euro rate would approximate 150 versus today's assumption of 135. The remainder of the top line difference is related to the tougher retail conditions existing today and particularly based on what we've seen in the past two to four weeks. In the fourth quarter, we expect improvements in operating margins in our outdoor, contemporary, and sports wear coalitions. We expect continuation of the expansion in gross margins in the quarter as retail grows and accounts for a larger portion of fourth quarter revenue gains. And, as Eric mentioned, we are continuing to invest in areas that will keep our brands healthy and growing. In fact, our advertising spend is expected to be 15% to 20% higher than in last year's fourth quarter. Now, you'll recall that the 2007 fourth quarter included restructuring costs that approximated \$14 million, representing a 70 basis point impact in that quarter. And in terms of just a few other data points, the tax rate in the fourth quarter should approximate 32%. Again, reflecting \$0.02 worth of anticipated credits. Capital spending should approximate \$120 million in 2008. Depreciation and amortization should be about \$160 million. And now, back to Eric.

Eric Wiseman - VF Corporation - President & CEO

Thanks, Bob. In closing, let me say that our track record of strength, stability, and excellence in execution makes me confident that we'll emerge from this current economic cycle stronger than ever. And while times like these necessitate that we intensify our focus on both costs and inventories, we're fortunate that we have the financial resources that will also enable us to continue to make smart investments in our brands to keep them strong and healthy. And I'm very encouraged by the fact that in this environment, we expect to deliver 7% to 8% revenue growth and 8% to 9% earnings growth for our shareholders in 2008, and to have our sixth consecutive record year. With that we'll open the line for your questions.

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QUESTIONS AND ANSWERS

Operator

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

Bor Drbul - Barclays Capital - Analyst

Hello, good morning.

Bob Shearer - VF Corporation - SVP & CFO

Hey, Bob.

Eric Wiseman - VF Corporation - President & CEO

Hey, Bob.

Bor Drbul - Barclays Capital - Analyst

Couple questions for you guys. First, Bob, can you talk about how -- what was the impact on foreign exchange in the quarter and sort of how are you thinking about that into the fourth quarter and I guess as you look into next year?

Bob Shearer - VF Corporation - SVP & CFO

Starting with the third quarter, Bob, again, as we said, a little bit different rate, particularly on the Euro, than we anticipated. But still helped revenues by a couple of percentage points and added \$0.05 or \$0.06 a share. Now, that changed. Now, again what I referred to in my comments earlier was versus our guidance. Again, so a little bit less than that. In the fourth quarter, once again, assuming the 135 Euro versus our prior guidance, so, obviously having some impact there versus the prior guidance. So, actually, of course, the Euro being below last year's fourth quarter, actually pulls our revenues down by about about a percentage point, and in the fourth quarter will cost us about \$0.03 a share.

Bor Drbul - Barclays Capital - Analyst

Okay. Thanks. And Eric, a couple of questions for you. Can you talk about what you are seeing sort of by brand in terms of orders as you get into the Spring period and specifically if you could share a number on The North Face, Spring backlog that would be great.

Eric Wiseman - VF Corporation - President & CEO

Don't have specific numbers for every brand at VF in front of me, Bob, but I will tell you that there's caution out there, and we're seeing that caution reflected in our order base going forward. Our stronger lifestyle brands continue to do better than our other brands in terms of Spring bookings. But our long term guidance for brands like The North Face, we're not seeing any signs that's going to slow down, based on what we now know. Probably not as specific as you'd like, but that's my answer.

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Bor Drbul - *Barclays Capital - Analyst*

All right. And then I guess the last question I have is just on inventories. Are there any inventory areas that you are concerned about? Either your brands on the wholesale level or at the retail level, and specifically on contemporary, there's been some 7 products in the clubs and the off price. I was just wondering if you could maybe just talk about where the inventories are and the run rate of that business specifically.

Eric Wiseman - *VF Corporation - President & CEO*

Yes, let me comment on the 7 For All Mankind inventory that's in the clubs. We are aware of that. We were not made aware of that by anything we did internally. We don't know specifically how we got there but it's not our policy to do that, and we will, if we find out how it got there, if it came from one of our customers, they will no longer be a customer of that brand. With that Bob can comment on the general inventories.

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, and overall inventories, Bob, you know, again, as I mentioned in the comments, a lot of pressure -- we put a lot of pressure, obviously, on our operating units, knowing the impacts that excess inventories can cause. So, no, there really aren't any pockets. If we saw inventories getting a little bit out of -- a little higher than they should have been, again, we took a lot of actions to work those down. And I'd still -- so as I said, by the end of the year we expect to see even better comps in our inventory. So, it's just an area that we're going to continue to put more and more pressure on.

Bor Drbul - *Barclays Capital - Analyst*

Okay. And then one final question is, can you maybe elaborate a little bit more in terms of what you are seeing in Europe and sort of how that has transpired for you, maybe by brand or by region?

Eric Wiseman - *VF Corporation - President & CEO*

Yes, Europe has -- we've started talking about slow down in select European markets. I think in the first quarter call, Bob. And I think what we've seen is a widening of that trend, more across western Europe. I would say that in general, in total, western Europe kind of looks like the US right now in terms of slowdown in our business. Interestingly, our brands are still doing well. We had strong growth from our international outdoor business in particular, and double-digit -- strong double-digit growth from our outdoor business in western Europe. And, obviously markets for us like China and Mexico and Latin America are doing very well for us right now.

Bor Drbul - *Barclays Capital - Analyst*

Great. Thank you very much. Good luck.

Eric Wiseman - *VF Corporation - President & CEO*

Thanks, Bob.

Bob Shearer - *VF Corporation - SVP & CFO*

Thanks.

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Operator

Our next question comes from Omar Saad with Credit Suisse.

Omar Saad - Credit Suisse - Analyst

Thanks. Good morning.

Bob Shearer - VF Corporation - SVP & CFO

Hey, Omar.

Omar Saad - Credit Suisse - Analyst

A couple of questions. First, on the outdoor side. One of the lowest growth rates you've put up in that business in some time. But it sounds like you're expecting it to bounce back a little bit in the fourth quarter. Can you share with us why you're comfortable that the revenue rate will bounce back in the fourth quarter in that business?

Bob Shearer - VF Corporation - SVP & CFO

Yes, Omar, part of the answer there, of course, is the retail side. Our retail business in the fourth quarter -- it's by far the largest quarter. And even though we're planning that, a little more conservatively, it will -- it's a factor, obviously.

Omar Saad - Credit Suisse - Analyst

Okay. So, there's not some assumption that the wholesale business is going to snap back on a year-over-year basis?

Bob Shearer - VF Corporation - SVP & CFO

No, retail is a significant factor in that improvement.

Omar Saad - Credit Suisse - Analyst

Okay. Also want to ask Eric about two of the decisions that you mentioned in the release. I know the dividend increase is very small but is there anything we should read behind that? And also, so many companies are kind of in capital protection mode right now, given just the massive uncertainty out there, the decision to increase marketing spend. How are you thinking about capital allocation, and what you're going to do with your cash through this environment? Especially in the context of -- your previously stated strategy to pursue acquisitions where they make sense.

Eric Wiseman - VF Corporation - President & CEO

Sure. On the dividend question, we have made a \$0.01 per share increase in our dividend payment. It's our -- as I said, our 36th consecutive year of increasing our dividends to our shareholders, and we are confident in our position and in our future, and wanted to share that with our shareholders. On the increase in advertising spending, we have been adamant all year that we have a long term plan to build our brands around the world, and that implies with it investment in brand development and investment in product development. And we have encouraged, if not insisted that each of our coalitions not back off on those

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investments where they're making progress. And I think that's smart for us long term. I think it's the right thing to do. I think in this environment, if you have good marketing and advertising, it's a great time to show it. If you believe consumers are going to be much more selective in the choices they make when they're spending, I'd rather have the best products supported by great brands that they're seeing in the media on a regular basis with compelling advertising. I just think that's the right thing to do, and we can afford to do that, and we'll continue it. Bob, did you want to deal with any part of that? No? Omar, did I get -- ?

Bob Shearer - VF Corporation - SVP & CFO

I think that covers it.

Omar Saad - Credit Suisse - Analyst

Yes, so as you invest behind these brands, it sounds like it's -- a lot of it's -- it's on the international side, but it sounds like you're also continuing to invest in your domestic businesses behind the key brands you want to grow.

Eric Wiseman - VF Corporation - President & CEO

Sure, we're investing -- we're investing, Omar -- a good example, is in our mass jeans business. And you've seen the television commercials that we run for the Wrangler brand, and we think that that's helping that brand do well in the mass channel. And it's been flat for the last two quarters. But if you look at everything going on in the world, we're happy with flat in the last two quarters.

Omar Saad - Credit Suisse - Analyst

So, how do you see this playing out? If some of your competition out there is retrenching, pulling back on spending and just trying to preserve capital and protect their balance sheet, while you guys kind of have the balance sheet to probably be a little more proactive in this environment, as retail bankruptcies emerge do you see risk kind of out there in the marketplace in terms of a lot of dislocation where you guys can come in and take market share?

Eric Wiseman - VF Corporation - President & CEO

That would be our wish. And it's why we're continuing to invest in our brands. It's times like these that strong companies I think have a great opportunity to invest in their brands, and if they invest wisely, I think that they will gain market share. We are hoping that we invest wisely. We're confident that we have the right brands and the right products out there right now that with these investments, I hope we will gain share and outperform the market, as we have done this year. I will remind you that we're going to have a 7% to 8% top-line growth this year in what has been the most difficult year any of us have had to deal with in a long, long time. And on the acquisition front, I think that there may be some opportunities that come up from good brands that are struggling to make it through this liquidity crisis right now, that we may have some opportunity there as well.

Omar Saad - Credit Suisse - Analyst

Okay. And last, really quick question, I was surprised that you said your inflation expectations or cost inflation expectations for next year -- you're kind of still holding at 3%. You are not seeing inflation moderate in your business. You are not expecting it to the moderate, the way the rest of the world is seeing inflation come back in in normal levels.

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Eric Wiseman - VF Corporation - President & CEO

Yes, Omar, I probably could have been a little bit more specific in that comment. I appreciate you giving me the opportunity to do that. My comment was that, similar to the comment we made a couple weeks ago out in San Leandro at The North Face and Vans meeting, we have real good visibility in the first half of the year because we have contracted for most of that production and for most of those raw materials, and that's the time that we're seeing a net of 3%. You're right, a lot of the commodity prices have come down recently. And the whole question about what the cost of labor will be for the back half of next year is still unknown. So, my comment was really more geared towards the first half, and we're working hard to make the second half even better.

Omar Saad - Credit Suisse - Analyst

Okay. Thanks. Best of luck.

Eric Wiseman - VF Corporation - President & CEO

Thanks, Omar.

Operator

Our next question comes from Kate McShane with Citi.

Kate McShane - Citi - Analyst

Hi, good morning.

Eric Wiseman - VF Corporation - President & CEO

Hi, Kate.

Kate McShane - Citi - Analyst

I just have a quick question on your jeans wear business. Did you still see down trading away from your brands in the jeans wear business domestically, and if so, have you adjusted your prices in order to better compete in the segment?

Eric Wiseman - VF Corporation - President & CEO

Yes, Kate, as I said -- I mean, I've said this all year, there has been a consumer trend towards thrift this year in the US market for sure. We've benefited some from that, because as more customers have gone to thrift, we have the largest branded presence in the mass channel. So, we've picked up some of that business. There's also been programs that are less expensive than ours that have been successful in the channel as well. But we think we've been, really, a beneficiary of that. And, yes, there has been an increased requirement and promotional investment this year to stimulate consumer demand. And we're seeing that for sure.

Kate McShane - Citi - Analyst

Okay, thank you.

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Eric Wiseman - VF Corporation - President & CEO

Thanks, Kate.

Operator

Our next question comes from John Stanley with Susquehanna International Group.

John Stanley - Susquehanna International Group - Analyst

Good morning, everybody.

Eric Wiseman - VF Corporation - President & CEO

Hi, John.

John Stanley - Susquehanna International Group - Analyst

Bob, I'm wondering if you can give us a little bit more color on the performance of the retail stores. Were the comps pretty much at your expectations, or were some of the divisions a little bit stronger or a little bit weaker than you would have thought that they would have been in the third quarter?

Bob Shearer - VF Corporation - SVP & CFO

Actually, the comps were pretty much on expectation. As we -- as -- again, as I said in my comments, off a bit, off a bit, but still, our full price stores posted upper single digit kinds of comps. Okay? And that's across the board. Obviously some higher than that. Now, I will also tell you that for the fourth quarter, we've planned that down a bit by a few percentage points, but, yes, overall, the strong brands just continue to -- they continue to perform, whether that's at wholesale or at retail.

John Stanley - Susquehanna International Group - Analyst

And was the outlet store business also as strong as the in-line stores?

Bob Shearer - VF Corporation - SVP & CFO

No, the outlet stores weren't. That would be the area that was a little bit different, actually, tougher comparisons there. And I think that's where the effects of the economy seem to hit us a little bit harder from that standpoint, but not as much on the full-price stores.

John Stanley - Susquehanna International Group - Analyst

Okay, turning to Europe for a minute, can you give us a little bit more color in terms of how the various brands performed in key markets? Were there any markets that were particularly strong? And I recall in the first and second quarter you had commented specifically about Russia being a major growth opportunity. Is Russia still viewed as something that's going to be a growing component of the European business, or has that slowed down?

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Eric Wiseman - VF Corporation - President & CEO

Yes, I'll try to deal with that question, even though it will be difficult on a by-brand basis. But, I think at the first quarter review, we talked about Italy, Spain, and the UK beginning to show signs of weakness. The situation there has not improved. In fact, may have deteriorated in terms of the macro economic situation in each of those countries. I think that other western European countries are getting involved in this malaise right now. Certainly Germany and France are showing some signs of slowing down on a macro economic level. Important to note that our brands, most of our brands in Europe had double-digit growth in the third quarter. So, we have outperformed those markets at this moment in time. Your question about Russia, we think Russia, long term, is going to be terrific for us. We are continuing to invest in there. We are investing behind our jeans and outdoor brands there. We think it's the right long-term thing to do in the last 60 days has there been interruption in that market? Economic interruption? Yes, there has. Just as there has been in the United States market. Doesn't mean we're not focused on our long-term potential there. In fact this might be a great time for us to pick up some share there.

John Stanley - Susquehanna International Group - Analyst

That's good to hear. Then, lastly, the question about the advertising spend going up 15% to 20% is that across the board, or are there some components of the Company that are going to get a richer advertising expenditure capability and some that are going to be cut back?

Bob Shearer - VF Corporation - SVP & CFO

It is pretty much across the board. As Eric mentioned, I believe, in jeans wear is clearly a part of that. Obviously we focus our advertising spend on a brand-by-brand basis, and also a specific new product launch as well. So, we're driving those dollars toward those areas that are clearly the strongest areas, such as in the jeans wear business what's working really well right now is differentiation in product, newness in product. So, that's where the dollars are going.

John Stanley - Susquehanna International Group - Analyst

Okay. Good to know. Thank you very much. Appreciate it.

Eric Wiseman - VF Corporation - President & CEO

Thanks, John.

Operator

Our next question comes from Everland Koppleman with JP Morgan.

Everland Koppleman - JP Morgan - Analyst

Good morning, thanks. Can you talk about -- you've talked about the top-line weakness of the past few weeks. Looking at your fourth quarter guidance can you talk about what you assume in terms of the promotional environment for the fourth quarter? Especially looking at brands like North Face that have pretty high price point items, especially in terms of winter jackets for the fourth quarter.

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Eric Wiseman - VF Corporation - President & CEO

Yes, in general, we're dealing with a moment in history that has lots of moving parts. We all know that, right? There's a lot moving around. And very recent moving parts. In general, our assumptions for the fourth quarter are that this environment of the last four weeks carries forward. In general, that means that we're going to have to make some more promotions -- some more investments in moving our goods. We are confident that we can deliver the guidance that we've put out there, and that it does assume that there will be some promotional investments that are just going to be necessary in this environment to get things -- to go across our brand. I don't, unfortunately, have specific guidance for each of our brands. But in general, that's true. And I think that's a prudent approach for us to take for the fourth quarter. Bob is there anything else I could -- ?

Bob Shearer - VF Corporation - SVP & CFO

No, I guess I would just say a little bit more -- actually, a little bit more promotion in perhaps the jeans wear area than outdoor. You mentioned specifically T&F. Again, we'd expect a little bit more dollars to be spent in the jeans wear area than some of our other brands.

Everland Koppleman - JP Morgan - Analyst

Okay, and as a follow-up to that, you talked about your expectations for margin improvement for the outdoor and contemporary coalitions for the fourth quarter. Can you talk just roughly about how much of that margin increase is due to the seasonality of having more retail versus just business year on year? If you can just give us -- you know, half of it is or some rough number, just to quantify a little.

Bob Shearer - VF Corporation - SVP & CFO

In the gross margin in the fourth quarter? Is that what you're referring to?

Everland Koppleman - JP Morgan - Analyst

Right, gross or operating margin, right. How much of it is just due to having more retail as a percent of the mix?

Bob Shearer - VF Corporation - SVP & CFO

It is. It is most of it, actually. Most of the margin expansion that we're seeing does, in fact -- does in fact come from the stronger gross margins and overall profitability of our retail business in the fourth quarter.

Everland Koppleman - JP Morgan - Analyst

Okay. And then final --

Bob Shearer - VF Corporation - SVP & CFO

Now, that's more so -- that's more so on the outdoor side. Our retail business in contemporary is still not a big piece of the total. So, that's a comment that's driven more in outdoor.

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Everland Koppleman - *JP Morgan - Analyst*

Okay, and the final question in terms of spending. Can you kind of talk through your thoughts about spending the money on advertising versus maybe on share buybacks?

Eric Wiseman - *VF Corporation - President & CEO*

Sure. The amount of money that we're spending on advertising we think can have a material effect on our brands in key markets. So, not sure that the amount of money that we're spending would have any material effect on our number of shares outstanding, but we do think for the long-term success of our business we want to continue to invest and build these brands on a global basis.

Bob Shearer - *VF Corporation - SVP & CFO*

I'd say the long-term success, clearly, as Eric said, and also to position ourselves to take advantage of some of the opportunities that we talked about earlier, that we expect to see as a result of this environment. So, we think it's exactly the right time to spend behind our brands and make sure that they stay strong and that we're able to take advantage of those opportunities as they arise.

Everland Koppleman - *JP Morgan - Analyst*

Okay, and just to confirm, you did not buy back any stock in the third quarter, right?

Bob Shearer - *VF Corporation - SVP & CFO*

That's correct, we did not.

Everland Koppleman - *JP Morgan - Analyst*

Great, thank you.

Bob Shearer - *VF Corporation - SVP & CFO*

Sure.

Operator

And our next question comes from Jim Duffy with Thomas Weisel.

Jim Duffy - *Thomas Weisel - Analyst*

Thanks. Good morning. Couple questions for you.

Bob Shearer - *VF Corporation - SVP & CFO*

Hey, Jim.

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Jim Duffy - *Thomas Weisel - Analyst*

Can you speak to the credit environment and the impact across your customer base of channel partners? What are you seeing there and what are you doing to address any potential issues that might arise?

Eric Wiseman - *VF Corporation - President & CEO*

Sure, Jim, Bob would love to do that for you.

Bob Shearer - *VF Corporation - SVP & CFO*

Well, I mean what we are hearing, Jim, is probably the same thing that you're hearing from others, and that is some conservatism relative to the buys from retailers. So, the way we respond to that is what we've mentioned earlier, and that is making sure that we keep our inventories low and clean. And that's the best thing that we can do. So, we plan a little bit more cautiously, clearly, and, again, the area that's most critical there is the control of inventories.

Jim Duffy - *Thomas Weisel - Analyst*

I guess what I was speaking more to is perhaps some risk to the receivables. Are you making any further adjustments to your allowance for (doubtful) accounts? Any change in terms with specific retailers that you are dealing with?

Bob Shearer - *VF Corporation - SVP & CFO*

No, change in terms. And if you look on our balance sheet, you will see that we've always taken what we believe is a pretty conservative view relative to our reserves associated with AR. So, -- and the other thing I would point out is that as of the end of September, our days were actually down a day. So, yes, it means increased focus for sure on AR, staying on top of it. Again, we've not changed terms, and again, just a lot of pressure in terms of on collecting. So, so far, you know, again, we've been able to manage through that.

Jim Duffy - *Thomas Weisel - Analyst*

Okay. And then with regards to your outlook, in an environment like this, how much faith are you putting in bookings numbers? Have you seen order cancellations? What's kind of the wiggle room you've given yourself based on the order book and the potential for cancellations?

Eric Wiseman - *VF Corporation - President & CEO*

Yes, you know a lot of our business -- a lot of our total revenue comes from replenishment. So, bookings are not critical to every piece of our business. They are critical to some, or more important to some pieces. We've not seen material cancellations of orders, Jim. We just haven't seen that yet. We are seeing -- the discussions we're having about forward business with our customers are thoughtful and cautious. And we think that's a smart way for everybody to approach planning right now, and that's -- and that's what our customers are doing and how we're approaching it as well.

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Jim Duffy - *Thomas Weisel - Analyst*

Okay, and then, a point of clarification on your assumptions for comps in the fourth quarter. Bob, I think you'd said down a couple of percentage points. Is that down from where it had been trending in the high single digits, or down a couple percentage points on an absolute basis?

Bob Shearer - *VF Corporation - SVP & CFO*

Down from where it had been trending.

Jim Duffy - *Thomas Weisel - Analyst*

Okay. And then I realize you're not prepared to speak in detail about '09, but I did have a follow-up to Omar's question. Philosophically, if the revenue lines go backwards, what happens with advertising spend? Do you still believe that if the environment gets even more difficult that it's the appropriate thing to do to continue to invest at the expense of the earnings line?

Eric Wiseman - *VF Corporation - President & CEO*

We're not expecting our revenue line to go backwards. We think our revenue line is going to grow in the fourth quarter, and that's reflected in our decision to continue the investment in our brands. I can't get into hypothetically what might happen next year at this time, though.

Jim Duffy - *Thomas Weisel - Analyst*

Okay, thanks so much and good luck.

Bob Shearer - *VF Corporation - SVP & CFO*

Jim, I think the important point there is that when you look at the fourth quarter, just in terms of how we manage our overall costs, and again we've obviously been active on the cost reduction front and that's reflected in our fourth quarter. So, with the volume reduction from our previous guidance we're still looking at operating margins on an adjusted basis, again, considering the restructuring in last year's quarter, to be about flat. So, that's the way we continue to manage, and again, we reduced the volume, the anticipated volume and are still looking at those kinds of numbers. So, we may -- we'll continue to look at other areas of spend so that we can spend behind the advertising dollars. And so there's not one specific point where we would stop the advertising spend, but it's just -- it's part of the overall equation.

Jim Duffy - *Thomas Weisel - Analyst*

Got you. Thanks so much.

Bob Shearer - *VF Corporation - SVP & CFO*

Okay.

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Eric Wiseman - VF Corporation - President & CEO

Thanks, Jim.

Operator

Our next question comes from Shannon Joseph with Wachovia.

Shannon Joseph - Wachovia - Analyst

Good morning, guys. I was wondering -- I actually have a couple of questions. I was wondering if you could give a little more detail about your plans for repaying commercial paper, whether you plan to use cash flow or draw on your bank revolvers, and also I was wondering if you could give an update on the Mo Industries acquisition? I know you have an option to purchase the rest of that in early 2009.

Bob Shearer - VF Corporation - SVP & CFO

Well, I'll start on the commercial paper front. We anticipate, we anticipate actually rolling over -- now, understand that we're at the high point. At the end of the quarter it's our high point in terms of commercial paper, and we begin generating a lot of cash in the fourth quarter. We've been seeing that. And we paid down our commercial paper from that high point at the end of September. We do have some rollover requirement in the months of October and November. For October we've actually been able to cover most of that. It's not easy, to be sure. The cost is a little bit up from what it would normally be. As you can imagine. But on an opportunistic basis we have been able to roll the commercial paper over, and we expect to be able to do that in November as well. But the biggest factor there is the strong cash generation, so that we'll pay down the commercial paper by the end of the year.

Shannon Joseph - Wachovia - Analyst

Okay.

Eric Wiseman - VF Corporation - President & CEO

And on the Mo Industries question, pleased to report that the splendid in (inaudible) brands continue to perform well in this environment. We've indicated that it's likely that we would complete this acquisition early next year, and I think that's still the guidance that we would give. That's still our intention. So -- .

Shannon Joseph - Wachovia - Analyst

Okay. Great, thanks.

Eric Wiseman - VF Corporation - President & CEO

Thank you.

Operator

(OPERATOR INSTRUCTIONS) Our next question comes from Mitch Kummetz with Robert Baird.

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Mitch Kummetz - *Robert Baird - Analyst*

Yes, thank you, a few questions, let me start with your outlook. You've talked about the revision there being attributable to external factors. But as I look at the outlook across your coalitions, it would seem that relative to what the outlook might have been as of the last quarter, that Q4 is coming down the most for jeans wear. Is that because that's -- that business is -- first of all is that accurate? And if that's the case is that business more susceptible to the external factors? Is it more a function of the increased investment in that business that's being dragged down by maybe a lower sales rate than previously expected?

Eric Wiseman - *VF Corporation - President & CEO*

Okay, Mitch, I'm not sure what exactly you are looking at to make -- come to that conclusion. Our numbers would suggest that the fourth quarter was reduced by each of our businesses pretty proportionately. There was not a big variation. All of our business leaders are reacting to the economic and financial crisis that we've all seen in the last four weeks. And trying to react responsibly, but what we saw, as we got our numbers in, worldwide from all of our businesses, was pretty evenly distributed across the board.

Mitch Kummetz - *Robert Baird - Analyst*

Okay. That's helpful. And then maybe just thinking about it a little differently in terms of the revision to the fourth quarter outlook, is it more a function of the -- or an impact on the international business than the US business because there's a bit of a double whammy there just in terms of currency coming in, and then also just the global economic slowdown hurting the international business?

Eric Wiseman - *VF Corporation - President & CEO*

I don't think that the international business environment is necessarily more difficult than the business environment in the Americas. But, yes, there is a double whammy because we lost about two percentage points of growth versus our prior forecast in the fourth quarter from currency conversion so that does affect that as well.

Mitch Kummetz - *Robert Baird - Analyst*

Okay, and then I know you don't really want to speculate on hypotheticals for 2009, but as I look at the currency impact, I think you'd said it was about a \$0.05 to \$0.06 add in Q3, and then going to about a \$0.03 drag in Q4. I'm guessing that you'd expect that -- you know, if the Euro stays at \$1.35 or so you would expect that to intensify into '09. And I'm just curious, giving how you hedged that exposure, where would the drag peak? Is it kind of midway through the year assuming that we're staying at similar currency rates to where we're at today?

Bob Shearer - *VF Corporation - SVP & CFO*

Well, again, we really would prefer not to comment, and more on that later, but I guess all I'd caution you there is just be very careful, because obviously the currency impact very significantly by quarter. So, in the first part of the year it helped us a little bit more. In the first quarter, not as much in the second quarter. A little bit more in the third quarter. And obviously that has a lot to do with the fluctuations in our overall business. So, again, we'll provide a lot more details on that (inaudible).

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Mitch Kummetz - *Robert Baird - Analyst*

Okay, and then last question, just a housekeeping -- where would you expect your Q4 interest expense to come in, and then I'm guessing you'd expect your share count to stay pretty flat to where it was in Q3.

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, let me just get that for you. Yes, the interest -- the net interest number in the fourth quarter should be right around \$22 million.

Mitch Kummetz - *Robert Baird - Analyst*

Okay.

Eric Wiseman - *VF Corporation - President & CEO*

And your assumption on share count being flat is accurate.

Mitch Kummetz - *Robert Baird - Analyst*

Okay, great, thanks, good luck.

Eric Wiseman - *VF Corporation - President & CEO*

Thank you, Mitch.

Operator

And at this point, Mr. Wiseman, there are no further questions, and I would like to turn the conference back to you.

Eric Wiseman - *VF Corporation - President & CEO*

I'd thank you all for joining us today, and that concludes our third quarter call. Thank you very much.

Operator

And that does conclude today's presentation. You may now disconnect.

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