FINAL TRANSCRIPT

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VFC - Q4 2008 VF Corporation Earnings Conference Call

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PRESENTATION

Operator

Good day, and welcome to the VF Corporation fourth quarter 2008 earnings conference call. Please be aware that today's call 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 - *VF Corporation - IR-ICR*

Thank you. Good afternoon, and thanks for participating in VF Corporation's fourth quarter and full year 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, Chairman and CEO of VF. Before we begin, we would like to remind participants certain statements included in today's remarks in the Q&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 with the Company with the SEC. At this time, I'd like to turn the call over to Eric Wiseman.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks, Jean. Good afternoon, everyone, and thank you for joining us. As usual during our year-end call we have our coalition leaders with us today so following opening remarks by me and Bob Shearer, we'll hear from them and their business in the fourth quarter and their outlook for 2009. As you saw in this afternoons release, 2008 marked our sixth consecutive year of record revenues and earnings per share, which in this market underscores what you can do when you have a great team managing a great business model. Over the past several years we've made a lot of changes at VF. We've added growing higher margin lifestyle brands. We've expanded our direct-to-consumer and international businesses and we've exited underperforming businesses, and these changes have resulted in a business model that is strong and resilient.

On January 14th we provided an update on our expectations for the fourth quarter. Today, we reported revenues were down 2% as anticipated while earnings per share were $1.05 which was at the high end of our guidance. Cash flow from operations came in stronger than we expected at $679 million versus our prior guidance of $650 million. We also provided preliminary guidance for 2009 which we are confirming today.

Revenues will be down slightly in 2009 at a low to mid single digit rate while earnings per share are expected to be about flat with the $5.42 reported in 2008. In this environment, we think this speaks volumes about our confidence in our brand strength, our capacity to control cost to protect our profitability, and most importantly, the quality of our people. We enter 2009 with our Balance Sheet and liquidity in excellent shape. Our brand portfolio is healthy and highly diversified and I remain very encouraged by our long term opportunities for growth. Now we remain interested acquisitions; however we will be very disciplined as we consider additional acquisitions, never losing our focus on maintaining our strong Balance Sheet.

We've indicated that we expect 2009 to be a very difficult year. We don't expect any improvement from the conditions we saw in the fourth quarter. No one can predict what the coming months will bring but I have confidence in our continued ability to navigate through the challenges inherent in such uncertain times. You'll recall that we achieved record results in the first three quarters of 2008. We were up against some pretty tough comparisons as we enter 2009. It should be no surprise to you that we'll have our most difficult comparison in our first quarter and you'll hear more about this from Bob in a moment.

Throughout 2009 we will continue to aggressively manage costs and inventories while at the same time we'll invest prudently in the best growth opportunities for our brands both here and abroad, and in 2009, we should have another year of very strong cash flow currently anticipated to be about $700 million. To hear more about our financial results here is Bob Shearer. Bob?

Bob Shearer - *VF Corporation - SVP, CFO*

Thanks, Eric. I'll start with revenues which on a constant currency basis were flat in the quarter with 2007. Now reported revenues were down 2% with a 2% or $39 million negative impact from foreign currency translation. Now as a point of comparison the average rate of the Euro in the 2008 quarter was $1.33 compared with $1.44 and last years fourth quarter.

Moving down the P & L, gross margins decreased by 100 basis points. Our expanding retail business contributed positively to gross margins, by about 170 basis points. Offsetting this positive impact were the following, one, the cost of aggressively managing inventories, two, the unexpected and unfavorable movement of international currencies against the Euro, and three, the highly promotional retail environment. Operating income declined by $71 million with $41 million of the decline related to our cost reduction initiatives. Nearly all of the $41 million is captured in the SG&A line and relates primarily to workforce reductions. As you're aware, we've taken an aggressive approach to reducing costs and we expect that our actions will result in cost savings of $100 million annually beginning this year.

In addition to the expense of the cost reduction initiatives our SG&A ratios were impacted by an increase in advertising spend and higher volume in our owned retail stores. Foreign currency translation negatively impacted operating income year on year by $4 million. And the tax rate in the quarter was 24.1% versus 27.4% in last years quarter and you'll recall that the 2007 rate benefited by a favorable tax resolution and we had similar although smaller benefit in this years quarter. Our declining tax rate reflects the benefit of the growth in our highly profitable international businesses, where our effective tax rates are substantially lower. This benefit will favorably impact future years as well. And that brings us to earnings per share.

Our EPS was $1.05 in the quarter and that is at the high end of the guidance we gave back in January. The cost reduction actions impacted earnings per share by $0.30 while foreign currency translation cost us $0.02 per share in the quarter. Now turning to the Balance Sheet. We're obviously very pleased with the strength of our Balance Sheet at year-end, a strong cash position, with low debt and substantial liquidity is a pretty good place to be considering the overall economic environment. Cash at year-end was $382 million compared to $322 million at the end of 2007. Our debt-to-capital ratio was 25% versus 26% at the end of 2007, and if cash is netted against outstanding debt that ratio would decline to below 20% at the end of 2008. We had no commercial paper borrowings at year-end and of our total debt, only 5% is due within one year.

Our inventories were only up slightly at year-end and this is an area that we will continue to manage aggressively. In fact, we expect some reduction in total inventories by the end of this year. Cash flow from operations was a very healthy $679 million, above our most recent guidance of $650 million. I should also point out that the 2008 marked our 36th consecutive year of higher dividend payments. Our dividend continues to be a priority for us in providing strong shareholder returns. And now a few words about our guidance.

We are planning for a challenging year, with the continuation of existing economic conditions. On a constant currency basis, revenues in 2009 should be flat to down slightly. We indicated in our release that reported revenues could be down by a low to mid single digit percentage rate reflecting a negative impact from currency translation of 3 to 4 percentage points. As a point of comparison our current plan anticipates a Euro rate of 1.33 compared with an average rate of 1.47 in 2008.

We look forward to another year of record revenue in our outdoor and action sports business, given the continued momentum of our brands. Revenues of our contemporary brands businesses are also expected to grow significantly. This reflects strong organic growth as well as the anticipated completion of the acquisition of the remaining two-thirds of Mo Industries Holdings, Inc., owner of the Splendid and Ella Moss brands in the first half of 2009. Expecting continued challenges in the overall economic environment we anticipate modest revenue declines in our jeanswear, sportswear and imagewear businesses.

Now as you're aware our international business is concentrated in our outdoor and jeanswear businesses and our expectations for a stronger dollar will affect the come par it sons in these businesses throughout 2009, with the greatest impact expected in the first and third quarters. Those are the periods when our international businesses are strongest. On a constant currency basis we expect our international revenues to grow at a mid to high single digit rate in 2009. Given our currency assumptions, our international revenues on a reported basis could be down slightly.

In terms of our expectations for our direct-to-consumer business, this too has been an area of strong and consistent growth for VF, as we've leveraged the strength of our lifestyle brands to expand our retail store base. During the year we opened a total of 89 stores, that's right in line with our goal of opening 75 to 100 stores annually, for 2009 we're taking a more cautious approach to our store opening plans and currently anticipate opening approximately 70 stores. These openings will include new stores for our 7 for All Mankind, Vans and The North Face brands on a global basis. Our store expansion should again result in solid growth in our retail revenues and earnings in 2009 with the strongest contribution in the second half of the year.

Now related to our expectations for margins in 2009 we expect to see a modest improvement in gross margins this year as we benefit from the ongoing change in our mix toward higher margin lifestyle businesses, and the continued expansion of our direct-to-consumer businesses. But our expectations also reflect the continuation of a challenging economic environment. Operating margins are expected to improve by about 50 basis points in 2009 over the 12.3% reported in 2008. Now keep in mind that that absorbs the impact of the substantially higher pension expense, which by itself represents an approximate 120 basis point impact on operating margins.

Now considering its unusual nature, the increase of approximately $90 million in pension will be reported as a corporate expense in SG&A, so, you'll not see that impacting the reported results of our coalitions. The pension expense will be spread fairly equally across the next four quarters and finally a stronger dollar assumption in translating foreign currencies could impact operating income by $40 million to $45 million. Again, the biggest impacts will be felt in our first and third quarters. Our tax rate in 2009 should be fairly comparable to the 28.9% reported in 2008 ranging between 28% and 30%. And that brings us to our EPS expectations for 2009.

Earnings per share in 2009 should approximate to $5.42 reported in 2008. As we said in the release, that includes the impact of the higher pension expense which will represent about $0.50 per share. In addition, the unfavorable impact from foreign currency translation included in our plans will be about $0.30 per share.

We also provided an outlook for the first quarter. As Eric mentioned we'll be up against very tough comparison. The economic environment has clearly worsened since the first quarter of 2008. Accordingly we indicated in our release that first quarter revenues could be down by 5% to 7%, with a 4% impact from foreign currency translation. Now the pension and the change in foreign currency translation rates will have a significant impact on the comparability of our earnings on a quarterly basis. The pension expense impact to earnings per share will approximate $0.11 to $0.12 each quarter, while the change in foreign currency translation rates will have the greatest impact on earnings in the first and third quarters once again reflecting flow of international profits during the year.

Accordingly we expect that earnings per share in the first quarter will decline significantly reflecting an estimated combined impact of $0.20 per share from these two items. In addition, the movement of international currencies against the Euro will have a significant negative impact in Q1 versus last years quarter. Now that's on top of the translational impact previously mentioned and of course, the negative volume will also result in tougher comparison in our first quarter. Accordingly, we currently expect that earnings per share for the quarter will approximate $0.90 to $.95 compared with $1.33 per share reported in the first quarter of 2008.

2009 should mark another strong year of cash flow for VF. We expect cash flow from operations of $700 million this year, cash balances at year-end could exceed $600 million. We have no significant long term debt repayments due until October of 2010 and in addition we have $1.3 billion available to us in unused lines of credit. We will continue to be very focused on managing our working capital and expect inventories to be down on a year-over-year basis. We also will be reducing Capital Expenditures in 2009 which should approximate $110 million compared with $125 million in 2008. All in all, we believe we are very well prepared to face the challenges of 2009.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks a lot, Bob. We'll begin hearing from the coalition Presidents, starting with Angelo Lagrega President of our Jeanswear-Americas

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Angelo Lagrega - *VF Corporation - President, Jeanswear-Americas*

Thank you, Eric. I'd like to start off by thanking all of the VF jeanswear associates despite unprecedented market conditions our associates continue to develop and deliver innovative and relevant products to our consumers, and thus gaining market share in many key categories and pro provide value to VF shareholders in the form of meaningful and operating profits and cash flow. Despite our revenues being down in the mid single digits we we're able to experience virtually flat year-over-year gross margins. Our Global Supply Chain provides us with a strategic advantage as we effectively balance internal production with cost efficient sourcing; however due to significant expenses associated with retail bankruptcy during the year and cost reduction initiatives during the fourth quarter, operating margins declined in 2008.

We issued a number of successes with the Wrangler brand this year. In the mens channel we did see a shift to opening price point products including some private label; however innovative new fits and finishes particularly in our Wrangler jeans Company line allowed us to gain new racks and floor space as we enter 2009. We also saw very positive results from 250 Wrangler shops that will be expanded to over a thousand in 2009. We increased our ad spending during the year, launching successful campaigns with both Brett Favre and Dale Earnhardt Jr. The introduction of our ultimate riding jeans for women was a huge success in our western channel.

At Lee we face particularly difficult conditions in the mid tier department. As you know this channel experienced a significant loss of doors with the liquidations of Mervyn's and Goodies; however working very closely with other key customers in this channel, we gained significant market share in a number of categories, both male and female and in jeans and casuals. New products such as Splendid secret, custom fit and no gap waste band have provided sought after uniqueness for the female consumer. Lee is very well positioned as we enter 2009 to continue to take share from its competitors.

Regarding the fourth quarter. We certainly battled the impact of the recession and the financial crisis. Revenues were down in the mid single digits and operating margins were strained, reflecting revenue decline and the impact of our cost reduction actions, but we continue to gain share in key product categories and to add greater floor space with key retailers as we enter 2009. We reduced gross inventory leaving us with the best inventory position in years. I am realistic as we enter 2009 but optimistic as I consider our opportunities. There is no doubt this will be a challenging year, and with that we expect our revenues in 2009 to be down slightly but we're all focused on driving results to new product innovation and new distribution. Fortunately many of these concepts have been fully tested and validated in 2008 and we'll look to leverage our successful flagship brands with existing and new customers.

The decisions we made in 2008 allow us to enter 2009 with a very streamlined cost structure, which together with our focus on revenue growth will support our average to deliver superior operating profits and cash flow to our shareholders. I remain very energized about what is happening in jeanswear with some of the most recognized brands in the world. We have a great team of people in place to execute our strategies, that are more focused than ever in understanding and giving consumers what they want. All this tests the stage for our platform of long term growth for our great flagship brands, thank you.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks. Next we'll hear from Scott Baxter, President of our Imagewear coalition.

Scott Baxter - *VF Corporation - President, Imagewear*

Thank you, Eric. Good afternoon. As you know the image wear coalition is made up of two distinctly different businesses, the activewear division and image division. Revenues were down in 2008 but the biggest decline in our activewear division where we saw a sharp deceleration in the fourth quarter resulting from the same challenging macroeconomic factors referred to throughout this call. Our image business continues to enjoy strong profitability and delivers healthy cash flows to VF. We started feeling the impact of a slowdown early in the year and took the necessary steps to contain costs early on.

During year we saw continued growth in our (inaudible) business, both domestically and internationally. In addition we had two very successful rolloffs in our customs and border protection business and in our PSA business. In terms of our activewear business, our major league baseball business performed well throughout the season. A majority of our baseball business is in by the end of September so we didn't feel the full impact of the Q4 retail contraction here.

In addition, we have strong pro-season business with the Philadelphia Phillies winning the world series. As we look into '09 we're excited about growing our (inaudible) business both domestically and internationally and our active business we have opened a new baseball manufacturing and distribution facility in Pennsylvania. It's a new highly efficient state-of-the-art facility built to better serve our baseball business. In our NFL business we were pleased with the outcome of the current Super Bowl as the winning team enjoyed the national scope and fan base.

We're planning our business very conservatively this year given the current retail environment and unemployment situation. We remain focused on capturing long term revenue growth opportunities while we continue to be very disciplined on the cost side. Our associates are energized, focused on the task at hand and ready to move our business forward in 09.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks, Scott. Next weaker is Karen Murray President of our sportswear coalition.

Karen Murray - *VF Corporation - President, Sportswear*

Good afternoon. The fourth quarter was one of the most challenging quarters on record for the Nautica brand as the severe financial crisis created a highly promotional retail environment focused on managing inventory at any cost of profitability. This affected not only performance in the department stores but also in the outlet channels and it has changed the price value equation across channels for 2009. The good news is that we laid important ground work in Nautica in 2008 designed to improve both the top and bottom line as we move forward. With the strong leadership team at the helm, Nautica laid the foundation for a new differentiated product direction, reclaiming its authentic water based heritage beginning with Spring 2009.

The collection will feature technically inspired products that is crisp and clean with bold colors and signature details as well as items reflecting a more casual, comfortable, relaxed side of the brand. The retailer response to our new product offering, Spring/Summer and most recently Fall '09 has been very strong and has resulted in the reestablishment of a relationship with Lord & Taylor for a full door rollout for Spring 09. There is significant focus on value priced product in 2009 and we will compete in this arena as well. You really must see the new product line to appreciate it. You can see it now at your local Macy's or Lord & Taylor but if not Cynthia will be working with me to schedule a showroom tour for for the investment community at some point in the next couple of months so please stay tuned.

Nautica will also place a renewed emphasis on delivering a differentiated consumer experience in store, in department stores, in addition to some new shops and remodels the brand will support its key seasonal product introductions with visual enhancements in 400 doors to aid us in speaking to our consumers. Nautica's outlets will also be updated as well to create a more strongly brand in Nautica experience. Nautica's marketing platform beginning for Spring '09 will be focused on reclaiming the brands' water heritage with focus on intensity and action. We'll increase our focus not just on traditional print but out of home and other grassroots tactics to create a more direct emotional connection with the consumer. For those of you that pass through Penn Station in New York, Nautica is blanketed throughout the station.

So we are entering 2009 with a team that is extremely energized and excited. New differentiated product, sharp prices to compete while maintaining our margins and new in store environment. We feel we are well positioned with Nautica as we could possibly be in this challenging environment. Turning now to Kipling and John Varvatos, both brands enjoyed continued growth in 2008 and will continue to grow in 2009 albeit at a somewhat slower pace than in recent years. Kipling ended the year with four full priced stores and four outlets. John Varvatos ended the year with eight full price stores and one outlet.

The 2009 total coalition operating income is expected to increase more than 50% with the improvement coming from cost reduction actions that are already in place. We expect gross margin expansion in all three brands and improved retail performance in both our wholesale and outlet businesses.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks, Karen. Our next speaker is Steve Murray, President of our newly created Action Sports Americas coalition. Steve?

Karen Murray - *VF Corporation - President, Sportswear*

Thanks, Eric. So I'm pleased to say that the Action Sports sector was a bright spot for VF throughout 2008. For Vans which is by far the largest of our two action sports brands, we enjoyed an extremely positive year. Domestic sales were up by 13%, with across-the-board increases in all channels and all product categories except snow equipment which is a comparatively small part of our business. Footwear sales finished the year 11% up driven mainly by classics in core product lines, while apparel and accessories grew by almost 40% gaining momentum with both the independent State channel and our two mid tier department store partners. The launch of our boys apparel line and mid tier and the expansion of our signature skate lines designed in collaboration with key athletes were particularly successful.

20008 was a very good year for our direct-to-consumer business, which grew 20% over the year. Vans retail stores enjoyed full year comp store sales growth of 8% driven mainly by full price stores. Despite the overall terrible economic environment we actually saw a Q4 comp increase of 9%. In line with our five year plan, we had approximately 20 stores through the year and remodeled a further thirty. Our eCommerce business grew by 40%. At wholesale, our fastest growing sector was the influential core channel where we continued to increase our market share and where we finish the year as the clear market leader.

With regard to Q4 specifically, we experienced high volatility in both wholesale accounts and in our own stores in the three or four weeks around Thanksgiving and therefore, we remain extremely attentive to shifts in buying trends. We did see consumer behavior stabilize towards the middle and end of December, however, and would describe our current mood as cautiously optimistic.

With regard to our Reef business, 2008 was a tough year. Sales in the core channel, which accounts for two-thirds of Reef's business were down 4% for the year and 11% for the fourth quarter with the sandal market particularly competitive and with the lows in normal rate of reorder experienced through the key Summer months. In December, we took the tough decision to align the organization to the current climate and decided to move to a licensed approach with our girls apparel business. This will allow us to refocus our efforts on the brands core competencies, sandals, T-shirts, head wear and board shorts. We believe these products resonates most with the Reef consumer and will provide a solid foundation of which to build when the overall subclimate becomes more positive again.

Looking to 2009, we're excited and committed to our long term goals. We're encouraged by the momentum the Vans brand is currently enjoying and will continue to invest in both product development and innovative marketing programs such as Walk Talk, our world class athlete rock star and our advanced triple crown of surf series of events. In addition, we'll continue to selectively expand owned retail, particularly outside of California, where we believe the demand for the brand is greater than our current network of retail partners can capture; however at one term, it was nearly simultaneously with aggressively managing our inventory, our product managers and our SG&A taking advantage of VF's companywide shared resources in supply chain and more specific sector benefits arising from the creation of the newly formed Action Sports coalition. We believe 2009 will be a tougher year than we've experienced in awhile but the fundamentals are in place but continued growth in our brands and market sector. Thank you.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks, Steve. Our next speaker will be Steve Rendle who is President of the also newly created Outdoor Americas coalition. Steve?

Steve Rendle - *VF Corporation - President, Outdoor Americas*

Great. Thank you, Eric. We're extremely gratified by the very good year we had in 2008. And despite the growing and economic turmoil a very good fourth quarter as well. I think that as a real testament to the strength of our brands and to all of the talented people behind us.

After a fairly healthy start in 2008, trends in the segment did turn negative in Q4 as we saw negative comp store results across our sporting goods and the department store channels and unseasonably warm and dry weather across most of the western United States. The North Face brand in the Americas continues to show great momentum and posted record sales and profits in the fourth quarter and for the year in total. Fourth quarter sales grew 24%, and full year sales were up 20%. On the global basis, The North Face brand achieved sales of just over $1.1 billion. Our wholesale business for The North Face in the Americas grew to double digit rates delivering strong retail sell-through across all channels and was most of its wholesale partners. Our direct-to-consumer business saw strong growth as well, with five new full priced stores added in 2008. We achieved high single digit comp store sales growth and our new stores are performing better than our initial expectations.

Our store strategy remains focused on being the local market access point for The North Face brand, a place where we're able to tell clear and focused brand and product stories centered around our world class athlete team and the remarkable expeditions. All this marked the successful launch of the North face brands new marketing and eCommerce website which provides a dynamic brand environment with powerful content and a complete online store. In Latin America, our business delivered solid performance with growth in Chile and new distribution partners added in Argentina, Brazil and Central America.

In terms of our JanSport brand, sharp declines in the mass and mid tier department store traffic negatively impacted both top and bottom line performance; however our Eagle Creek brand had a very good year in both sales and profits despite a downturn in its core travel segment. Despite the challenging times we're planning another year of continued growth for The North Face. We expect strong market share gains across all product categories and our teams are committed to driving our new activity based business model that many of you heard me speak about in our October 2008 Analyst meeting. We feel strongly this new structure focus on outdoor action sports performance athletic and youth activities will enable The North Face brand to reach new consumers while expanding sales across new specialty points of distribution.

Direct-to-consumer will be another important contributor to this years growth. We plan to open eight new full price retail stores and further expand our eCommerce platform. Our marketing efforts in 2009 will be directed to increasing brand awareness, building our activity base platform, and driving store traffic with both our wholesale customers and our own stores, with new initiatives to spark outdoor participation at the market level.

In summary we know our brands are strong. Our products are in demand and our mid and long term growth initiatives are sound. We've entered 2009 knowing we had great people focused on all aspects of our businesses, most notably building products that meet and in many cases exceed our end-users expectation.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks, Steve. Our next speaker is the President of VF international, Karl Heinz Salzburger. Karl Heinz?

Karl Heinz Salzburger - *VF Corporation - President - VF International*

Thanks, Eric. 2008 was a good year for our business in Europe and Asia with strong increases in many of our brands. Nevertheless in the second half of '08, we did see conditions weaken quite a bit across Europe. Our jeanswear business was down slightly in '08 as economic conditions worsened in key European countries particularly in the fourth quarter.

Over the past year, we have been very focused on repositioning the Lee and Wrangler brands with differentiated products and marketing for both. The new lines have been extremely well received and initial reactions from our customers have been positive. On the impact of foreign currency, with resulting lower revenues from both Lee and Wrangler in Europe. In '09 on a constant currency basis we expect revenues to be flat to down only slightly.

Turning now to our Outdoor and Action Sport business. We continue to see great momentum here. Our business in Europe continues to grow with '08 revenues up double digits from both a reported and constant currency basis. Most of our brands are gaining market share and outperforming the market. Our largest brand, The North Face, is stronger than ever, and posted record revenues in Europe in '08. For '09 our direct-to-consumer initiatives continues to remain important growth drivers and we continue to selectively add both owned and partnership retail stores. New shopping shops will be a major focus for us with 50 plus planned this year.

Vans is our second largest brand and also continues to perform extremely well. We're looking forward to new store openings in Paris and (inaudible) France this Spring which will bring our total number of owned stores in Europe to ten. Our Kipling and Napapijri brands each had an outstanding year in '08 with healthy revenue growth in Europe on a constant currency basis. We ended the year with ten owned Napapijri stores and more than 40 partnership stores. Our owned store enjoyed an excellent year in '08 with double digit comp store performance.

We also expecting another good year for our Kipling brand. On a constant currency basis we have seen great success from our fashionably new products which are driving sales during our own stores. We also simply launched direct-to-consumer websites in six countries across Europe and at year-end we had 24 owned Kipling stores and 179 partnership and distributer stores.

Turning now to our business in Asia, this continues to be a fast growing and strategically important market for us. In '08 revenues for our Asia business grew by more than 50% reaching $230 million. Growth was driven primarily by The North Face and Lee

Brands in China. China would continue to be a growth market for us in '09 with revenues expected to be up about 25% on a constant currency basis. 2008 also marked the launch of our Vans brand in China.

In summary our businesses in Europe and Asia continues to be in a very good shape and are well positioned to gain share in a difficult market. Foreign currency population will negatively impact our revenues in '09 but on a constant currency basis we're looking forward to achieving mid single digit growth for our jeanswear, outdoor and action sports business combined.

Eric Wiseman - *VF Corporation - President, CEO*

Thank you very much Karl Heinz, our last coalition leaders is Mike Egeck of our Contemporary Brands coalition. Mike?

Mike Egeck - *VF Corporation - President, Contemporary Brands*

Thank you, Eric. Contemporary industry segment remained a bright spot in retail for most of the first half of 2008, however trends in the same turned negative in Q3 and was one of the hardest hit in Q4. In this environment, both 7 For All Mankind and Lucy finished the year with a challenging fourth quarter. In the quarter coalition sales decreased about 5% and adjusted for the exit of our private label program at 7 sales were down 4%. Full year comparison CBC sales grew about 10% in 2008 and operating income, excluding our third quarter charge related to tax and duty matter grew about 3%.

We were pleased with the results of our 7 For All Mankind direct-to-consumer initiative in 2008. We opened 13 new stores during the year bringing us to a total of 15 at year-end in both storage and our eCommerce business performed according to our expectations. 7 For All Mankind wholesale business performed very well in the first half but became more challenging as the year progressed and as our major customers experienced significant same-store sales declines.

Our product merchandising and store design businesses for Lucy business gained traction during the first half of the year, however our similar to 7, we were impacted by the pervasive promotional environment in the second half of the year and particularly in the fourth quarter. We remain enthusiastic about the Lucy brand but we recognize that the current environment is making our turnaround efforts more difficult.

For 2009 we remain focused on our long term growth initiatives. Those initiatives are, grow the core 7 For All Mankind denim business with best-in-class product innovation and a focus on shop-in-shops, continue to expand 7 into new products in sportswear and accessories, open additional retail stores for both Lucy and 7 For All Mankind, increase the product productivity and product margin for Lucy stores utilizing our new activity specific product platform, and new store design to create more energized in-store experience and finally we look to compete the Mo Industries acquisition some time in the first half of this year.

The early read on 2009 is that the retail environment remains very challenging. The 7 For All Mankind stores are performing in line with our expectations and we look forward to adding nine to15 new stores this year, however the 7 For All Mankind wholesale business remains difficult to project as our better department store and specialty store customers continue to be very cautious with our future order commitments so we're applying that part of our business very conservatively this year. As a result of the product, merchandising, and store design initiatives, the Lucy stores are showing improvement. We significantly upgrade the product to incorporate more technical benefits and our remodeled stores are showing good results.

2009 will be a challenging year for the coalition but our brands are healthy and we remain confident there's substantial opportunities for future growth.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks, Mike. That concludes our prepared comments on our record 2008 and our plans for 2009. At this time, we'll open the line to questions.

QUESTIONS AND ANSWERS

Operator

Thank you, (Operator Instructions). We'll take our first question from Robert Drbul, Barclays Capital

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Eric Wiseman - *VF Corporation - President, CEO*

Hi Bob, how you doing?

Bob Drbul - *Barclays Capital - Analyst*

Good. Good afternoon. I guess the first question is a specific question, on the cost savings side for the $100 million, is it fair to just take $25 million out a quarter or is there anymore detail in terms of how to think about that?

Eric Wiseman - *VF Corporation - President, CEO*

Yes, Bob, it grows throughout the year, as you might imagine, so it's a little less in the First Quarter and it grows, again it grows throughout the year so there will be more of an impact in the fourth quarter than the first.

Bob Drbul - *Barclays Capital - Analyst*

Okay, and then on the contemporary businesses, Mike, if you could talk a little bit more in terms of I guess when you look at the business performance in the fourth quarter and the assumptions for 2009, I guess the first question is how much of the growth that you're projecting in contemporary comes from the Mo acquisition and the completion of the Mo acquisition and then I think-- if you could maybe just put in a little bit more in terms of the organic assumptions that you have and perhaps like what you expect the retail business to contribute just to get the growth after seeing fourth quarter performance in that business.

Mike Egeck - *VF Corporation - President, Contemporary Brands*

Let me speak in the organic growth question first. It is a very tough environment out there and our plans don't assume that it gets better. We're also not assuming, however, that it gets worse, so the organic growth really comes from market share gains, from some very selective new distribution, and from our own retail stores and our eCommerce. The timing on the Mo Industries acquisition is still to be determined so we can't speak specifically to the growth from that particular acquisition but we do plan to complete it some time in the first half of the year.

Bob Drbul - *Barclays Capital - Analyst*

Okay, and then on the inventories, are there areas of inventories you are concerned with either at wholesale or at the retail level in terms of where the system is right now from the orders, etc. , any cancellations that you're concerned about as you look at the first half of

Eric Wiseman - *VF Corporation - President, CEO*

No, Bob. You're asking both at retail and what we have internally? Is that the question?

Bob Drbul - *Barclays Capital - Analyst*

Yes.

Eric Wiseman - *VF Corporation - President, CEO*

No, actually our inventories again we've seen improvement throughout the year and something that we talked about actually earlier in the year it really varied by channel of distribution. Specific actions were taken to align inventories so right now we feel pretty good about the inventories at the retail level and as we said our inventories that we're holding were relatively flat in the year and what I'd also add to that is that actually the quality of those inventories were even a little bit better, so in other words when we match up the inventories against anticipated sales on a near end basis, we like what we see relative to the quality, so we did.

We took a lot of steps. It cost us in the fourth quarter to be sure, we took a lot of steps to get those inventories in line and we're very aggressive in doing so and that's why the quality is there and that's also how the level got to where it is.

Bob Drbul - *Barclays Capital - Analyst*

And then just my last question is on the jeanswear businesses, so when you look at the loss of Mervin's and Goody's, how much of your revenue base goes away in 2009 as you begin the year with the loss of those two partners?

Eric Wiseman - *VF Corporation - President, CEO*

Yes, I guess we won't talk about that specifically but what we will tell you, Bob, is that relative to all those factors and maybe other retailers that may be a bit more troubled. We've factored all of those pieces into our numbers.

Bob Drbul - *Barclays Capital - Analyst*

Okay. Good luck. Thank you very much.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks, Bob.

Operator

We'll take our next question from Kate McShane, Citi.

Kate McShane - *Citigroup - Analyst*

Hi, thank you.

Eric Wiseman - *VF Corporation - President, CEO*

Hi, Kate.

Kate McShane - *Citigroup - Analyst*

You mentioned in your comments that operating income in the contemporary business is negatively impacted by the promotional and markdown related expenses during the quarter which I assume is more in the wholesale channel. What is your strategy for 2009 for pricing the 7 brand? I know one of your competitors lowered their prices on some of the more higher end jeans. Is this something you would consider doing or are you planning on cutting the number of styles offered?

Mike Egeck - *VF Corporation - President, Contemporary Brands*

Hi, this is Mike and I'll take that question. We have had some of our competitors drop their price. We do not believe that's the correct thing to do and based on what we know on the reaction from the retail community that we serve it's not the right thing to do.

What we are seeing is we're seeing softness in jeans over $200. We run our product in a price range from about $150 to over $300 and what we have done is increased the offerings we have between $150 and $200 and that seems to be the right answer for matching consumer demand at the moment.

Kate McShane - *Citigroup - Analyst*

Okay, that's very helpful, thank you. And I was a little surprised to hear that you're still opening 70 stores this year and although it's opening at a slower rate, it's still just below the low end of generally where you can open stores. Are you continuing to open because of the benefit you might get on the leases?

Eric Wiseman - *VF Corporation - President, CEO*

Bob and I are just fighting over that answer. We gave guidance as part of our five year plan we're going to open 75 to 100 stores a year. We opened 89 last year and we had the intention of opening 100 this year, and last summer we're beginning to plan. We dialed that back by about 30% to 70.

That's our target number of stores. We obviously don't have all those committed to but it's lower than what we would have done had the economy not turned the way it is and it's a strange situation because there's some terrific lease opportunities out there and yet we have to be very thoughtful about when we pull that trigger, with which brands and which markets, but we'll do that and get to 70 by the end of the year we think.

Kate McShane - *Citigroup - Analyst*

Okay, thanks very much.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks, Kate.

Operator

We'll go next to Todd Slater with Lazard Capital.

Todd Slater - *Lazard Capital - Analyst*

Thanks very much. Good afternoon, everyone. Could you guys give us an idea about the size of the Action Sports coalition? I don't think I saw a break out and I know you just separated them but and also maybe a little more color on why you restructured the coalitions and what you might be planning for the AS space.

Bob Shearer - *VF Corporation - SVP, CFO*

Todd I'll start on the first piece of that, we actually will continue to report our numbers as outdoor and action sports so we won't show the pieces separately, so in our segment reporting you won't see individual pieces.

Todd Slater - *Lazard Capital - Analyst*

Oh, okay.

Eric Wiseman - *VF Corporation - President, CEO*

And Todd I'll deal with the second part of your question, which why did we choose to split them and you obviously know that we've had terrific success over the last five years with that portfolio of brands and that portfolio of brands was getting pretty big and the reality is that the outdoor world and the action sports world while we have some things in common there's more they have that are separate that comes to the kind of consumers they sell, where they sell them and which channels and trade shows they go to. And we think that we can unlock our future growth potential in those action sports and outdoor by dedicating leadership to each and challenging those leaders to accomplish great things.

Todd Slater - *Lazard Capital - Analyst*

And what's the reason for not providing the break out?

Bob Shearer - *VF Corporation - SVP, CFO*

No specific reason really at this point in time. Maybe at some point we will but right now it obviously helps the comparability year-over-year so again maybe at some point in time, we might but not now.

Todd Slater - *Lazard Capital - Analyst*

Okay, and then just a quick question on the international side. You guys mentioned I think that you expect '09 revenue on a constant currency basis to be I think flat to down slightly if I heard that right?

Bob Shearer - *VF Corporation - SVP, CFO*

Right.

Todd Slater - *Lazard Capital - Analyst*

Could you talk just about what your economic assumptions are in terms of either GDP or employment trends or those types of things over the next 12 months that that flattish type of expectation is based on? Like you said you didn't expect your assumptions were based on not a further deterioration. I don't know if that was for the whole world, for the U.S. or for international.

Bob Shearer - *VF Corporation - SVP, CFO*

Sure. Our assumption about no improvement in the environment was a global comment, as we build our plans we build them market by market and brand by brand and our guidance to the people that are responsible for our businesses in each market, look at the second half of last year and to project forward in that kind of an environment so we've had that pretty consistently throughout the world.

Todd Slater - *Lazard Capital - Analyst*

So I just want to reassure firm that you don't expect the international arena to deteriorate economically?

Bob Shearer - *VF Corporation - SVP, CFO*

That's correct.

Todd Slater - *Lazard Capital - Analyst*

Okay.

Eric Wiseman - *VF Corporation - President, CEO*

And that obviously holds true within all of the international businesses. In other words looking at Asia and where Asia is right now as well as Europe.

Todd Slater - *Lazard Capital - Analyst*

Got it. Okay, well thank you very much and best of luck.

Eric Wiseman - *VF Corporation - President, CEO*

Thanks.

Bob Shearer - *VF Corporation - SVP, CFO*

Thank you.

Operator

We'll go next to Robbie Omes with Bank of America.

Bob Shearer - *VF Corporation - SVP, CFO*

Hi, Robbie.

Robbie Omes - *Bank of America - Analyst*

Oh, hey guys. Thanks so much. Actually a quick question or maybe more of a clarification. The beginning of the call, so you're looking for 50 basis points of operating margin improvement in '09. Is that net of the 120 basis points of offset from pension expense so you're really looking for 170, is that?

Bob Shearer - *VF Corporation - SVP, CFO*

It is. It is net of the pension expense.

Robbie Omes - *Bank of America - Analyst*

So I'm just, and I know if I go through the transcript and really try and think it through and add up all of the pieces you gave us-- but can you reconcile sort of a lack of visibility in '09 for revenues and orders and everything else with an ability to take, to achieve that type of operating margin expansion? Is it all cost cutting or can you just give me sort of the basic large pieces on the gross margin and SG&A side that get me there in what is supposedly a pretty tough environment? Thanks.

Bob Shearer - *VF Corporation - SVP, CFO*

You know, just looking at the individual pieces, again this is full year '09. In the gross margin area, just as we've been seeing, our retail business and expansion and retail will help drive the gross margins up there so again, considering the overall climate and the comparison of first quarter, second quarter and how that trended throughout the year, we think overall that the gross margins might expand 50 basis points to 100 basis points. Again with the large piece of that being driven by the retail expansion.

And then in the SG&A side, again a little bit of a mixed bag just as you pointed out. So once again, retail will drive the SG&A percentages up somewhat, not as strong as the gross margins obviously, so we expect some improvement there in retail profitability and then the cost reduction, is a significant benefit and the pension is an offset to that so overall the SG&a will be up to a lesser extent than gross margins may be flat to 50 basis points so that's how we net out to the 50.

Robbie Omes - *Bank of America - Analyst*

Terrific. Thanks a lot.

Bob Shearer - *VF Corporation - SVP, CFO*

You bet.

Operator

We'll go next to Eric Tracy with BB&T Capital Markets.

Eric Tracy - *BB&T Capital Markets - Analyst*

Good afternoon, thanks. Maybe just a follow-up to that question in terms of the margins. Is it possible to dig in a little bit in terms of the coalitions and the expectations there? It seems like at least based on the comments some pretty meaningful improvement both around jeanswear and the sportswear?

Bob Shearer - *VF Corporation - SVP, CFO*

Yes, right. We do expect some meaningful improvement in our operating margins but I have to point out again that's before the pension, so that's why we specifically made the comments, Eric.

We're going to capture the increase, the big increase in pension in corporate expenses because of its nature and yes, we do expect to see some significant improvements in our overall operating margins. I'd say the more significant improvements, a little bit stronger in the sportswear area and also in the contemporary brands but again with improvement pretty much to it all.

Robbie Omes - *Bank of America - Analyst*

Fair enough and maybe just on The North Face brand in particular for outdoor, talk a little bit about still the growth opportunities domestically on the wholesale side of the business--obviously retail can continue to carve out your distribution but just in terms of be it the sporting goods or department store channels where you see the opportunities, is it still product category extensions, a little bit on that would be great. Thanks.

Karen Murray - *VF Corporation - President, Sportswear*

Sure. This is Steve. I'll take that question. So as we look at our overall distribution model, between specialty, sporting goods and department stores you see all three channels of distribution as opportunities to grow. The activity based model as we look to expand the meaning of our brand outside of just outdoor focusing also on action sports from a winter perspective, performance athletic and then casting that same model across our youth business, we see great opportunities to access new customers and new specialty points of distribution and strategic ways to continue to grow the brand.

Eric Tracy - *BB&T Capital Markets - Analyst*

Okay fair enough. Thanks guys.

Bob Shearer - *VF Corporation - SVP, CFO*

Thank you.

Operator

We'll go next to Sam Poser.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

Good afternoon. I just have a quick question regarding your business in Europe and if you could speak to where like the strengths and weaknesses are within Europe?

Karl Heinz Salzburger - *VF Corporation - President - VF International*

This is Karl Heinz answering. We operate in Europe with several businesses jeanswear, outdoor and action sports and (inaudible) so each of the three have different characteristics. Clearly as I mentioned in my speech, we have outdoor and action sports still growing well. We have the (inaudible) growing well and we have some issues on the jeans which we are repositioning.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

But any issues like Eastern Europe being stronger than Western or Southern Europe being weaker and in general anything of that nature?

Karl Heinz Salzburger - *VF Corporation - President - VF International*

Well clearly we see some different dynamics inside Europe. Emerging Markets are still doing better than others and depends by brand and by geographic areas. Southern Europe is a little bit more challenged. Central and Northern Europe still performs pretty well.

Sam Poser - *Sterne, Agee & Leach, Inc. - Analyst*

Thank you very much.

Operator

We'll go next to Jim Duffy with Thomas Weisel Partners.

Jim Duffy - *Thomas Weisel Partners - Analyst*

Thanks, hi, everyone.

Eric Wiseman - *VF Corporation - President, CEO*

Hi, Jim.

Jim Duffy - *Thomas Weisel Partners - Analyst*

Bob, a follow-up to one of your earlier responses. I'm trying to understand how the guidance contemplates at-risk customers and the potential that they either close stores or go belly up-- certainly seems like you taken into consideration some of those that we already know about. What about those that we don't necessarily know about?

Bob Shearer - *VF Corporation - SVP, CFO*

Yes, Jim. Obviously, that's the challenge, right, in this environment and what I'll tell you is that with a lot of careful consideration in going through the plans and actually looking at each of our retail partners and evaluating that and taking a posture in terms of being more conservative with some than others. And so all that again, it's reflected, we believe it's reflected in the properly in the plan based on what we see right now, but you're right. It is a challenge.

Jim Duffy - *Thomas Weisel Partners - Analyst*

So how is it that you go about handicapping that? You take expected volumes and if you believe a customer is at risk?

Bob Shearer - *VF Corporation - SVP, CFO*

Yes, sure, we look at the level of business that we did in '08, we look at the level of business that we've been doing recently, if reorders are a part of the business with the particular retailer we'll consider that as well and the activity that we've been seeing.

Jim Duffy - *Thomas Weisel Partners - Analyst*

Okay. And then a question on the tax rate. As we think about currency and the impact on profitability contribution from international, is that going to have a negative impact on the tax rate in '09?

Bob Shearer - *VF Corporation - SVP, CFO*

Well, what happens, you're absolutely right. Our international business does have a substantially lower tax rate than the U.S. piece, but having said that, we believe that all in, the tax rate in 2009 will be very comparable to what we saw in 2008. So despite the currency impacts that we're talking about.

Jim Duffy - *Thomas Weisel Partners - Analyst*

That's good to hear. And then Steve, a question for you. Can you give us a little flavor on the seasonality we might see from the outdoor coalition? Spring has always been kind of a less penetrated season for you. Should we expect outside growth there and more moderate growth in the back half? Any help there would be beneficial, thanks.

Karen Murray - *VF Corporation - President, Sportswear*

Sure. I think for the coming years, specifically '09 and 2010, Jim, I wouldn't see the mix from a seasoned standpoint change. Clearly, opportunity is to grow our strength order books and to offset what is a historically a very strong back half business.

Jim Duffy - *Thomas Weisel Partners - Analyst*

Thanks very much.

Bob Shearer - *VF Corporation - SVP, CFO*

Okay, Jim.

Operator

We'll go next to Paula Torch with Needham & Company.

Paula Torch - *Needham & Company - Analyst*

Good afternoon. Thanks for taking my question. I realize in this environment that everyone is really trying to conserve cash; however with some really good brands out there struggling currently are you still considering acquisitions and if so, where do you fill your white space in terms of your brand portfolio.?

Eric Wiseman - *VF Corporation - President, CEO*

Sure, Paula. This is Eric. I'll take that question. Yes, we are still interested in acquisitions and we're fortunate to be in a position where we have a strong balance sheet and good business model that lets us keep active in that space.

The current environment hasn't changed our overall strategy for the kinds of acquisitions that we find attractive and those are primarily in the outdoor and action sports, contemporary and sportswear segment. And we're looking for the kind of lifestyle brands that have the kind of financial and strategic characteristics around global expansion and owned retail that we've talked about historically. That still is our agenda and yes, we're still active.

Paula Torch - *Needham & Company - Analyst*

Okay, that's great. Thank you, good luck.

Eric Wiseman - *VF Corporation - President, CEO*

Thank you.

Operator

We'll go next to Omar Saad with Credit Suisse.

Omar Saad - *Credit Suisse - Analyst*

Thanks. Wanted to ask for a little bit more detail around the cost savings initiatives, the $100 million that you talked about, Bob. Obviously with your margin expectations this is a big part of you getting to your goals for 2009, this kind of-- you're seeing a lot more of these restructuring plans and cost savings plans coming out of the marketplace and I think that's something that Nike just hit the wire. That $100 million, how aggressive are you being to get there? Is that kind of this is our best shot, worst case scenario or something you can do pretty comfortably and if the conditions do worsen over the next couple years globally are there more opportunities out there from some of the layers you've built up over the last few years?

Bob Shearer - *VF Corporation - SVP, CFO*

It's always awe tough question to answer, Omar, but the way we looked at it was we said we wanted to be proactive in terms of getting prepared for an environment that could toughen and we wanted to get a little bit ahead of the curve. So we were aggressive in terms of the cost reduction activities and what we said was if per chance we went a little too far, we can always add but it's very very difficult to be in a defensive position and be in a spot where you really need to do more.

You determine you need to do more. So that was the stance we took but I can tell you also that given what our businesses have done in the performance of our business we also said that we want to be very very careful to not go too far, that it injures the business in any way, shape, or form so it's always a fine line. It's always a matter of balance and degree but we think that's what we've achieved.

Eric Wiseman - *VF Corporation - President, CEO*

I'll add to that that as we went through the which items to cut and which not, we still have brands that have global growth potential and we did not cut spending in our brands and in the markets that we think it's important to build for our future growth, so this wasn't--there's no other possible opportunity for cost cutting type scenario. We think to get the right steps to have the business model that we're talking about for 2009.

Omar Saad - *Credit Suisse - Analyst*

Okay, but if I read you right, you can go deeper later on if you need to?

Bob Shearer - *VF Corporation - SVP, CFO*

You can always do that.

Omar Saad - *Credit Suisse - Analyst*

All right that's good to know. And then Eric? In a lot of ways we have this bell weather stock for a lot of many parts of the discretionary economy, you're in a lot of different channels, in a lot of different marketplaces, categories, geographies, etcetera from where you sit now talking to your retail customers from what you're hearing from your end consumers out there and across different Markets, what's your view of the world? Can you step back and put on a macro hat for a minute? Where do you think we go from here? How does the landscape change for the this new economy that we're entering and how does VF fit into that?

Eric Wiseman - *VF Corporation - President, CEO*

Well first of all I'm not an economist or I wouldn't be in the apparel business so I'll start with that but I think the consensus of our customers and we're very connected to all of the big global retailers, and everybody is planning very conservatively, and we think that's smart. We think that planning for conservative consumer spending and then after that, planning conservative inventories is a smart way to conduct business. We think that's what we're doing in our planning on our balance sheet and the P & L and we're supporting our customer to do that. I think most of our-- the consensus would be that no one is expecting a turnaround in 2009. Might happen, but nobody is counting on it, certainly we're not. What happens in 2010 we'll be thinking about more in depth and talking about as we get to the middle of the year.

Omar Saad - *Credit Suisse - Analyst*

Okay. Very helpful, thank you.

Bob Shearer - *VF Corporation - SVP, CFO*

Thanks, Omar.

Operator

We'll go next to Christina Chang with Susquehanna.

Christina Chan - *Susquehanna - Analyst*

Hi. Thanks for taking my question. One question on the jeanswear division. Do you believe it's possible for operating margins to recover by the end of the year for jeanswear?

Bob Shearer - *VF Corporation - SVP, CFO*

Well actually, I'll start on that. We do expect and again this is I'm always careful to say this, we do expect operating margins within jeanswear to improve 2009 versus 2008, and that's a result of a number of things and the cost reductions and the initiatives that we took are obviously a piece of that. Again remember that our jeans business is a global jeans business. The numbers that we report on jeanswear are globally so we actually expect improvement on a global basis not just in the U.S..

Christina Chan - *Susquehanna - Analyst*

How much would costs play in margin improvement because I think you mentioned before that you're expecting first half costs to go up by maybe 3%. What is the cost picture looking for you like in the second half?

Bob Shearer - *VF Corporation - SVP, CFO*

When you talk about margins are you talking about gross margins or operating margin?

Christina Chan - *Susquehanna - Analyst*

Both. Gross margin and operating. Because on the gross margin standpoint, do you see jeanswear and costs to be going down substantially as well to help offset some of the promotional pressures you might be seeing?

Bob Shearer - *VF Corporation - SVP, CFO*

Well again from the restructuring initiatives, yes. The costs will go down and from a product cost standpoint, we expect costs to be relatively stable.

Christina Chan - *Susquehanna - Analyst*

And then do you expect to-- how do you expect to position your domestic jeanswear brand, given how consumers are behaving and the fact that as you said they're shifting towards more opening price point products? Are you thinking of going, lowering your price point or are you thinking of putting more features in your product and holding on to your current price levels?

Angelo Lagrega - *VF Corporation - President, Jeanswear-Americas*

I'll take that. This is Angelo. Basically we have a couple things going on within our business. The one thing that is really helping us is that consumers are responding to trusted brands so we do see whether it's our Wrangler brand and Lee brand that consumers are going to brands they trust. Specifically on Lee we're seeing a lot of opportunity, a lot of market share gains. The team has done a great job in developing new innovative products that are helping us sell jeans at higher prices, raising our AUR slightly in '09 from '08 because consumers are responding to the newness and the innovation.

On the mass channel specifically, the Wrangler brand is our flagship brand and that's where we see really significant growth within the mass channel and what's driving that business is that our fashion business has had great success in '08. It was the most successful young men's updated collection in the mass channel and many of our retail partners are expanding that into '09.

Christina Chan - *Susquehanna - Analyst*

But then the margins for your fashion business tend to be a little bit lower than your core business. Is that right?

Angelo Lagrega - *VF Corporation - President, Jeanswear-Americas*

We did see a little bit of a shift in our margin but we're getting significant growth and overall our units and our dollars are going up significantly so we see that as an opportunity for us to propel our operating profits.

Christina Chan - *Susquehanna - Analyst*

Okay, thank you and one last question on Vans. How would you think, how would Vans compensate for the fact that a lot of the stores in that moderate channel are cutting back their store opening plans and are you seeing a lot more pricing action from other competitors and how its responding to that?

Karen Murray - *VF Corporation - President, Sportswear*

This is Steve. I'll respond to that. First of all, that mid tier channel is only a relatively small part of our overall mix. We have a very balanced distribution mix with the core and the lifestyle and the Mo and our own retail so we're not actually exposed to any one channel becoming particularly promotional. But in any case, we haven't really said it with our brand so it's really just not something that we've had to concern ourselves with yet, just about a little bit of what Angelo said about jeanswear, we're seeing same thing.

The pricing of Vans shoes particularly is really not prohibited in the greater scheme of things within the overall athletic footwear world and we're actually seeing our market share as well as our overall business go up right now, so we're largely untouched so far, to any aggressive promotional activity that you may be seeing in other companies and other brands.

Christina Chan - *Susquehanna - Analyst*

Thank you.

Operator

We'll go next to Scott Frost with HSBC.

Scott Frost - *HSBC - Analyst*

Hi. Wanted to get some more color on the pension expense. Could you give us an idea of what plan assets were at the end of the year and whether you're going to be changing any of your discount rate or return on plan assets or service costs or contribution plan costs?

Bob Shearer - *VF Corporation - SVP, CFO*

Yes. The pension plan at the end of the prior year actually was very close to $1.1 billion.

Scott Frost - *HSBC - Analyst*

Right.

Bob Shearer - *VF Corporation - SVP, CFO*

So that's the size of the plan and so the reduction, the market reductions in value are what are driving the higher expense and--

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Scott Frost - *HSBC - Analyst*

Could you tell us what that return was, what that negative return was though?

Bob Shearer - *VF Corporation - SVP, CFO*

Yes, it was around 30%, a little better than the overall market. So, in terms of the assumptions around the plan, we've always been kind of in the middle or to the lower end. That's VF. We've taken a fairly conservative posture so right now we're not saying that we need to make any significant adjustments to those assumptions.

Scott Frost - *HSBC - Analyst*

So the 300 million, that's the loss of a plan. That gets amortized I guess back into over how many years? Five or seven?

Bob Shearer - *VF Corporation - SVP, CFO*

Five years.

Scott Frost - *HSBC - Analyst*

And does that represent most of the increase in pension expense?

Bob Shearer - *VF Corporation - SVP, CFO*

It does. That's the biggest piece.

Scott Frost - *HSBC - Analyst*

But a little tweaking on the plant cost and service cost maybe?

Bob Shearer - *VF Corporation - SVP, CFO*

Discount rate, that's right.

Scott Frost - *HSBC - Analyst*

Could you also give us some color on sort of not necessarily which retailers you think are doing badly but in terms of account activity which ones seem to be either steadier or better than you kind of thought they would be?

Eric Wiseman - *VF Corporation - President, CEO*

Yes, we traditionally don't comment on our opinions of how our retailers are doing but we do plan with them based on the information that they make public so I think you know what we know about how they are planning and how they see the future in terms of their store openings and trends. No additional color on that one I'm afraid.

Scott Frost - *HSBC - Analyst*

Okay, thank you.

Eric Wiseman - *VF Corporation - President, CEO*

Thank you.

Operator

We go next to Maggie Gilliam with Gilliam & Company.

Maggie Gilliam - *Gilliam & Company - Analyst*

Good afternoon.

Eric Wiseman - *VF Corporation - President, CEO*

Hi, Maggie.

Maggie Gilliam - *Gilliam & Company - Analyst*

Hi. Could you, one point of clarification if I could, Bob. On the gross margins outside the United States, I gather you're not expecting cost pressures from the weakness in the Euro sourcing in China or elsewhere if prices come down commensurately?

Bob Shearer - *VF Corporation - SVP, CFO*

No, Maggie, and you're right. You are alluding to the fact that our gross margins are stronger internationally, they are. One of the challenges that we've pointed out and I pointed out in my comments is that what we're seeing right now and other companies are experiencing the same thing is some of the fluctuations within currencies within Europe or countries that in and around Europe, so for example, the pound.

The pound has devalued significantly against the Euro. We hold inventories in Euros and when we sell those products in the UK, that does impact our profitability, so that's right now the biggest impact that we're seeing in terms of our numbers, bigger in the first quarter than other quarters to be sure.

Maggie Gilliam - *Gilliam & Company - Analyst*

Okay, and could you also on another subject comment a little bit about how the outlet stores are doing and what are your plans for outlet store expansion specifically in 2009?

Bob Shearer - *VF Corporation - SVP, CFO*

Well the outlet stores have been and continue to be a nice benefit for us and we measure the Ben effect in terms of the pricing that we realize through our outlet stores versus what we would realize externally, and I can tell you that those sources that many other companies use externally have a lot of product and aren't necessarily looking for a lot more product, so the outlet stores continue to be a nice benefit for us. Now, the overall pricing of the stores has been a little bit tougher but again that's not the way we measure. We measure the benefit versus the alternatives and that's where the benefit comes in.

Maggie Gilliam - *Gilliam & Company - Analyst*

Okay and how about expansion?

Bob Shearer - *VF Corporation - SVP, CFO*

Our expansion, when we talk about those stores, nearly all of that is full price stores so we expand the number of outlet stores only to meet the capacity of moving excess goods so as we see that and when revenues grow, normally you see our outlet stores also grow so not a lot of expansion anticipated there.

Maggie Gilliam - *Gilliam & Company - Analyst*

And one quick question. Mention was made that more technical product is going to be added. Is that a new direction for the brand, well can you elaborate a little bit, please?

Mike Egeck - *VF Corporation - President, Contemporary Brands*

Yes, this is Mike and I'll answer that. It is definitely a new direction for the brand. When we acquired the Lucy brand, it was headed in the direction toward more casual women's sportswear, and we acquired the brand because the Lucy name does have authenticity in the activity-based zones, particularly around Yoga and gym, so what we've done is we've divided the store into four activity specific zones.

A Yoga zone, a gym zone, a running zone and an explorer zone and in each of those categories we've got new design teems focused very specifically from authentic performance based products. It's a complete turnaround in direction the brand was headed and it's being led by a lot of new people with very high levels of experience and talent in those specific areas.

Operator

We'll go next to Dana Telesey with Telsey Advisory Group.

Dana Telsey - *Telsey Advisory Group - Analyst*

Good afternoon, everyone. Can you please talk a little bit about given the current environment is the timing of product deliveries, being adjusted, if so by how much and how does it impact your expected inventory levels for the first and second quarters?

Eric Wiseman - *VF Corporation - President, CEO*

No, this is Eric. I'm looking around the table at our business leaders and the consensus of the heads nodding up and down, there doesn't seem to be any material change in the timing of product deliveries. We are working with all of our retail partners on lien inventory assumptions as we enter 2009 and I believe that's the right approach.

Dana Telsey - *Telsey Advisory Group - Analyst*

Thank you.

Eric Wiseman - *VF Corporation - President, CEO*

Thank you.

Operator

We'll go next to Mitch Kummetz with Robert W. Baird

Mitch Kummetz - *Robert W. Baird - Analyst*

I've got a few quick questions. First one being what was your consolidated Q4 comp and then what sort of comp assumption is embedded in your Q1 and '09 guidance?

Bob Shearer - *VF Corporation - SVP, CFO*

Yes, the overall comps for Q4 were about flat and as you might imagine that varies. Now that includes our outlet stores as well as our full price stores and as I just responded to a prior caller, actually our outlet comps were a little tougher so if you take the outlet comps, we were obviously up a bit in the quarter, the overall comps were up a bit which clearly out paces what we're seeing from a number of competitors and others. You also ask for '08?

Eric Wiseman - *VF Corporation - President, CEO*

'09.

Mitch Kummetz - *Robert W. Baird - Analyst*

Yes.

Bob Shearer - *VF Corporation - SVP, CFO*

The assumption there overall is flat. Flat comps.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay. And then you provided some parameters on your '09 sales outlook by coalition. Could you also just address your '09 sales guidance by domestic versus international and retail versus wholesale? Kind of what is your outlook for the wholesale business?

Bob Shearer - *VF Corporation - SVP, CFO*

Yes. In terms of on the international side what we talked about was that currency obviously has an impact there, so we said excluding the currency impact we would be up more in the mid single digit range and including currency, could be down a few percentage points.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay.

Eric Wiseman - *VF Corporation - President, CEO*

But around 30% of the overall revenue.

Bob Shearer - *VF Corporation - SVP, CFO*

And you also asked about retail?

Mitch Kummetz - *Robert W. Baird - Analyst*

Yes, you're predicting that to be up given you said a flat comp and you're adding stores but what is your projects on your wholesale business for '09?

Bob Shearer - *VF Corporation - SVP, CFO*

Again, overall in terms of retail growth, kind of mid single, maybe a little bit above mid single digit area, in terms of total growth. We think that we'll grow the percent of our total retail maybe by a percent or so.

Mitch Kummetz - *Robert W. Baird - Analyst*

Okay. And last question, Eric you made the comment that your customers are planning their businesses conservatively for 09 and managing your inventory accordingly. Can you say how much of your overall business is driven off pre book orders versus reorders and what is your ability to chase assuming-- with the possibility out there that maybe the environment does improve a little bit, what is your ability to chase and maybe get some incremental reorder business relative to your guidance?

Eric Wiseman - *VF Corporation - President, CEO*

That's a really good question and a really impossible one to answer but it differs by business and by market. And we think of the number of brands that we sell in the number of product categories we sell in the number offer countries we sell it is very different. Our jeanswear business can chase basic product very, very efficiently and get caught up in a very short window of time.

Our more technical outerwear goods around The North face, a lot of that stuff is pre booked in advance and we purchase to our order book and it's very tough to chase some of that so it's hard to give you an answer that will be meaningful as a percentage of VF around the world because it's also different getting goods into Russia or China or Italy or the U.S..

Mitch Kummetz - *Robert W. Baird - Analyst*

Fair enough. That's all I had. Thanks and good luck.

Eric Wiseman - *VF Corporation - President, CEO*

Thank you.

Operator

It appears there are no more questions at this time.

Eric Wiseman - *VF Corporation - President, CEO*

If there are no more questions, I'll thank you all for joining us on the call. I appreciate your support in 2008 and we'll get back to making 2009 happen. Thanks a bunch.

Operator

This concludes today's conference. We thank you for your participation. You may now disconnect. Have a wonderful day.
