

FINAL TRANSCRIPT

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VFC - Q2 2008 VF Corporation Earnings Conference Call

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CORPORATE PARTICIPANTS

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ICR - IR

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VF Corporation - CEO & President

Bob Shearer

VF Corporation - SVP & CFO

Mackey McDonald

VF Corporation - Chairman

CONFERENCE CALL PARTICIPANTS

Bob Drbul

Lehman Brothers - Analyst

John Shanley

Susquehanna Financial - Analyst

Mitch Kummetz

Robert Baird - Analyst

Omar Saad

Credit Suisse - Analyst

Todd Slater

- Analyst

Robby Ohmes

Merrill Lynch - Analyst

Jared Orr

Morgan Keegan - Analyst

Christian Buss

Thomas Weisel - Analyst

PRESENTATION

Operator

Good day, everyone, and welcome to the VF Corporation second-quarter 2008 earnings conference call. Please be aware that today's conference is being recorded. At this time I will turn the conference over to Ms. Jean Fontana. Please go ahead, ma'am.

Jean Fontana - ICR - IR

Thank you. Good afternoon and thanks for participating in VF Corporation's second-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 afternoon is Mr. Eric Wiseman, President and CEO of VF. Before we begin, we would like to remind participants that certain statements included in today's remarks and the Q&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.

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At this time I would like to turn the call over to Eric Wiseman.

Eric Wiseman - VF Corporation - CEO & President

Thank you and good afternoon. Welcome to today's conference call. I'm delighted to be here to discuss another record quarter in both revenues and earnings per share for VF Corporation.

Now, as I have done in the past, I will keep my comments confined to those areas we think are of the greatest interest to our audience today, and then I will turn the call over to Bob who will provide his comments on our financial results.

My first comment relates to the overall environment and VF's performance within that environment. There continues to be a huge amount of concern out there about how the rest of the year will play out. Speculation about conditions deteriorating even further and skepticism about companies' abilities to meet let alone beat their numbers.

Now all along we had shared this concern. From the beginning of the year, we have talked about how we expect the difficult conditions to persist throughout the year.

And yes, conditions have been even more difficult than we could have foreseen, and we are affected by this environment. We have areas of our business that have not performed as strongly as we had planned as all of you are no doubt aware.

Adding to the picture is rising cost inflation. So in response we have had to tighten our belts and cut cost, buckle down on inventory and focus in an even more disciplined way on our execution in every area. Make no mistake, it is tough out there. But it is in times like these that the VF business model really proves itself.

No, we are not immune to what is going on in the market, but we did deliver 11% topline growth and much better than expected earnings in the second quarter. And after carefully reviewing our plans for the back half of the year, we are confident in our ability to achieve 2008 revenues of approximately \$7.8 billion, an increase of just over 9%, and we have increased our earnings per share growth target from 10% to 12%.

Now there are several reasons why we continue to perform well in today's environment. It starts with having the right brands. We have been truly fortunate to have made some great acquisitions and to make these acquisitions pay off for us. Brands like the North Face, which chalks up a 40% increase in revenues this quarter or brands like Vans, up 14%.

We also have great heritage brands like Wrangler that continue to generate strong profits and cash flow. And we continue to invest in new brands that have a very bright future like 7 For All Mankind, Lucy, Kipling and John Varvatos.

Most recently, as you know, we purchased a third of the shares of Mo Industries, which owns the Splendid and Ella Moss brands. We have an option to acquire the remainder of the business early next year, which would allow us to bring two more great brands into our Company.

The second strength of VF's model is our diversity. We embrace diversity -- diversity in brands, diversity in products, in channels of distribution and perspectives and geographies. And we have demonstrated that we can successfully manage all the complexity that comes with it.

Two important elements of our diversity that are up proving particularly beneficial to us this year are international and owned retail. As you saw in the release, our international revenues rose 23% in the quarter with 29% growth in our international outdoor business and 14% growth in our international jeans business. Even excluding the benefit of foreign currency translation, our international revenues were up a solid 8%.

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A question I expect many of you have relates to what we're seeing today in our international markets. There is no question that there are pockets of weaknesses overseas, and the conditions are more difficult now than they were at the beginning of the year. Again, we are fortunate that we have such strong brands that continue to attract consumers. And we are fortunate that our investments to build businesses in emerging markets such as Asia, Russia and South America are paying off, hoping to offset more challenging conditions in parts of Europe. Well, we expect these soft conditions to persist. We also believe our international business can grow 17% in the second half of the year and will be up 19% for the full year.

Also, noted in the release was the fact that our retail revenues were up 15% in the quarter. We continued to be extremely pleased by how strongly many of our retail store concepts are performing. The North Face and Vans stores in particular are experiencing strong retail sales growth, driven by both new store openings and healthy comp store increases.

We also noted that we're seeing double-digit retail revenue growth in our Kipling, Napapijiri, John Varvatos, and Lee brand retail stores. The first half of 2008 we opened 38 stores across our brands, and we anticipate opening over 90 stores in the full year.

For the second half of the year, we anticipate continued strong growth in our retail revenues of over 20%. Our brands and diversity are important components of our model. Another is execution. I will quote our Chairman, Mackey McDonald, who has repeatedly said that while brilliant ideas are not uncommon, brilliant execution is rare.

I'm extremely proud of our associate's success in executing our growth strategy. The VF of today, there's little resemblance to the VF of a decade ago because we not only laid out a plan to transform our business model, we executed it. And today in extremely difficult business conditions, we continue to execute. As I look at the balance of the year, I'm cautious and know it will be far from easy. But I also remain confident about our Company's prospects for not only this year but the years to come as well.

Now let's hear from Bob Shearer on the quarter's financials. Bob?

Bob Shearer - VF Corporation - SVP & CFO

Thanks. We included a fair amount of detail in today's release, so I will keep my comments to just the highlights.

Starting at the top, we achieved an 11% increase in revenues in the quarter, which was actually a bit better than our guidance of 10%. And once again, outdoor momentum provided us with upside in the quarter, and Imagewear also contributed to the better than expected performance.

We indicated that we expected a 100 basis point improvement in gross margins in the quarter, and that is pretty much where we came out.

In terms of operating margins, we did achieve better than expected operating margins in the quarter, which contributed to the better than expected earnings per share gain.

Now you will recall last quarter we talked about our expectations for operating margins of around 9%, and that outdoor margins in particular were going to be down from the prior year's quarter due to spending in a variety of areas. Outdoor margins, in fact, declined only slightly in the quarter with the decline due mostly to the seasonality of our growing retail business. We did proceed with the most of the investments we had planned. Fortunately higher-than-expected revenues and strong gross margins translated into additional profits that largely offset the spending.

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As we indicated last quarter, outdoor margins should increase for the full-year 2008, driven by solid improvement in the second half with particularly strong comparisons in the fourth quarter, which is the seasonally most important quarter for our retail business. While we are on the subject of margins, I will make a comment about margins in our other coalitions.

Jeanswear margins were down 340 basis points in the quarter. Now, as explained in the release, 110 basis points of the decline can be attributed to the absence of the gain that we had in last year's second quarter related to the sale of the business. Another 50 basis points of the decline relates to the cost-saving actions referred to in the release, which primarily result from the closure of a higher cost manufacturing plant. These actions, the cost of which in the quarter was \$3 million, will benefit future profitability by nearly \$6 million per year.

In addition, the Jeanswear margins were impacted by a disproportionate effect of foreign currency translation on revenues versus profits, considering the seasonally lower second quarter for international jeans operations.

Now, as indicated in the release, we do expect strong and stable Jeanswear margins in the midteens for the full year. I should note that Jeanswear margin comparisons will be particularly strong in the fourth quarter as you recall that last year's fourth-quarter operating income reflected unusual expenses, amounting to \$8 million, which we do not expect to repeat in this year's fourth quarter.

Now in terms of Sportswear margins, as anticipated they were down in the quarter. Most of the decline was related to the -- Nautica volume decline, which came from two sources. The loss of a men's Sportswear customer last year and the exit of our women's wholesale business. Otherwise, Nautica revenues would have been about flat with the prior year's quarter.

Now we indicated in the release that Sportswear margins should improve the double-digit levels in the fourth quarter. Coalitions margins should be just below 10% in the third quarter, and we expect margins recovering to the low to midteens levels in the fourth quarter.

Now you will recall that in last year's fourth quarter Sportswear margins were depressed, primarily due to very high levels of promotional activity in our Nautica outlet stores. We are very confident that the issues we had last year have been corrected.

In addition, last year's margins were impacted by the losses from our women's Sportswear business, which will not be a factor in this year's fourth quarter considering our exit of the women's wholesale business earlier this year.

As a point of reference, our core Nautica men's wholesale Sportswear business has consistently been generating margins in the midteens, and we look forward to finally getting back to more normal operating margins for our Sportswear coalition.

Contemporary brands margins were quite strong at 16%. In fact, margins were better than we had anticipated, another reason for the stronger than expected second-quarter earnings.

And Imagewear too had margins that were a bit stronger than we anticipated due to higher volume in cost control initiatives.

So just to summarize second-quarter operating margins, they declined in the quarter from prior year levels due primarily to changes in our business. Specifically the seasonality impact of our growing retail business, lower Sportswear profitability and the aforementioned items impacting the comparisons within Jeanswear. We were much better than we had anticipated due to stronger performance in outdoor, contemporary brands and Imagewear, as well as tight management of costs throughout our businesses.

Now looking at the full year, we continue to target an increase of operating margins of approximately 30 basis points. We expect relatively stable margins in the third quarter and then a substantial improvement in operating margins in the fourth quarter.

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I have touched on some of the factors that will benefit fourth-quarter margins. But just to summarize, first, fourth quarter is seasonally the most important period for our fast-growing retail business, which enjoys operating margins that are well above our corporate average in the fourth quarter. Our retail business will represent a bigger percent of our total business compared to last year's fourth quarter.

Second, we're looking for a substantial improvement in Sportswear margins. And third, you will recall that last year's fourth-quarter Jeanswear operating income and margins reflected unusual expenses that totaled \$8 million, so our Jeanswear margins will have much more favorable comparisons this year.

Now turning to our tax rate in the quarter, at 28.5% it was well below that of the first quarter, reflecting the favorable tax resolutions noted in the release as related to the outcome of audits covering several tax years particularly in international jurisdictions.

Which brings us to the bottom line. As you know, we originally anticipated a decline in our second-quarter earnings per share, so we're very pleased that we, in fact, beat last year's number by a \$0.01. To be sure, the tax resolutions helped us by \$0.07 per share, but the quarter also included \$0.04 worth of expense reduction activities.

Now earlier in the year we indicated our intent to repurchase 2 million shares in 2008, which we completed in the second quarter. We have 3.2 million shares remaining in our current authorization.

In terms of our balance sheet, to reiterate what we said in the release, inventories rose by 10% in the quarter, but more than half of the increase was due to the companies acquired in the second half of 2007 where days are considerably higher than VF averages. Our inventories are in very good shape throughout all of our coalitions as this has been and will continue to be an area of intense focus for us.

As Eric indicated earlier, we feel very good about the balance of the year. Despite the headwinds, our brands are performing, and our top line is solid. We have confidence in the growth we expect in our retail and international businesses and in our ability to manage costs and inventories to maintain our strong profitability, drive high cash generation and fuel future earnings growth.

Eric?

Eric Wiseman - VF Corporation - CEO & President

Thanks, Bob. Before we turn the call over the Q&A, I would like to give Mackey the opportunity to say a few words in closing. As you know, Mackey is retiring effective August 1 after 25 years with the VF Corporation, including the last 12 as CEO and the last 10 as Chairman of our Board of Directors. He is a tough act to follow for sure, but because of his leadership we're in a very strong position both competitively and financially to succeed in the years to come. Mackey?

Mackey McDonald - VF Corporation - Chairman

Thank you, Eric. I would like to add my congratulations to our VF associates for an outstanding performance in such a challenging environment and my thanks to Eric and the VF management team for building a diversified business model and brand portfolio that continues to grow consumer demand and margins even with these headwinds.

Also, my thanks to the many friends we have in the financial communities whose analysis and challenges for these many years have inspired us to constantly work to transform our business model, and we are proud of the results.

I will miss the exchange of ideas, but the process will continue, and the confidence in the VF business model will continue to grow.

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Now back to Eric.

Eric Wiseman - VF Corporation - CEO & President

Thanks, Mackey. At this time we will open it up to your questions. If any of you have lots of questions for Mackey, I know he would love to take them. So let's go.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS). Bob Drbul, Lehman Brothers.

Bob Drbul - Lehman Brothers - Analyst

I guess the first question is for Mackey. I'm just curious how many points you shaved off of your handicap over the last several months and if you have any targeted goals for it over the next few years?

Mackey McDonald - VF Corporation - Chairman

That haven't let me out of here to work on my handicap yet, Bob, but I have got plans for that in the near future. Thanks for your concern.

Bob Drbul - Lehman Brothers - Analyst

Good luck. Take care. Eric, in terms of I guess the assumptions -- (multiple speakers)

Eric Wiseman - VF Corporation - CEO & President

-- my handicap either, Bob.

Bob Drbul - Lehman Brothers - Analyst

Join the crowd. When you look at the rest of the year and the assumptions, you guys really did a good job laying out your comfort level in terms of your assumptions for the second half of the year. I guess can you elaborate a little bit more on the assumptions around your retail business in terms of comp trends in the different formats and sort of your assumptions, especially in the fourth quarter and your comfort level around the comp trends by each format of your retail establishment?

Eric Wiseman - VF Corporation - CEO & President

Sure. I will take a shot at that. It is a very complicated question because of the number of retail formats that we have at VF Corporation and the number of the countries that we have stores in worldwide. So when you look at any of our -- just looking at one brand, you could be looking at brand that has stores in 20 countries. That makes it very difficult to answer that question.

I will tell you that in general that our comp store growth assumptions in the back half of the year are not as high as the comp store growth we achieved in the first half of the year. So we're a little bit more conservative in our run-rate in terms of growth

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assumptions. We're still planning comp store growth, but not at as high a rate as we did achieve in the first part of the year. The dollar growth will be bigger, of course, because of the importance of the fourth quarter to all of our retail stores.

Bob Drbul - *Lehman Brothers - Analyst*

Okay. The other question I have is just on the Sportswear business and especially your assumptions in the fourth quarter. Around the Nautica business, when you think about the trends that we have seen in the department store business, similar questions just in terms of how you are comfortable with your assumptions in the Sportswear business as you look at the department store channel or the primary channel for the Nautica business as you go into your assumptions in terms of that segment.

Eric Wiseman - *VF Corporation - CEO & President*

Sure. The Nautica business, as we all know, has been challenged both with internal execution issues, as well as environmental issues, the external issues. The biggest issue that affects its profit contribution is in the back -- in the fourth quarter of last year the Nautica business had a really tough fourth quarter. A lot of that was driven around markdown money both in our own retail stores and through our wholesale customers. We think we've got our arms around that and know that we have a chance to do dramatically better from an earning standpoint from Nautica in the fourth quarter, and we're pretty confident based on the trends we have we're not expecting a big turnaround this year in the revenue part of the business. We are expecting improvement in the profitability in the back half of the year.

Was your question profit-related?

Bob Drbul - *Lehman Brothers - Analyst*

Yes. Thank you very much. Good luck.

Operator

John Shanley, Susquehanna Financial.

John Shanley - *Susquehanna Financial - Analyst*

Eric, are the pockets of weakness that you mentioned in the international markets primarily related to Europe, or do they involve other markets as well?

Eric Wiseman - *VF Corporation - CEO & President*

Primarily Europe. I commented on the last quarterly call that unlike what we experienced in 2007, we were beginning to see some weakness in the UK and in Italy and in Spain. That has not improved at all. We don't expect it to improve in the forecast that we have given, but it is really a Western European softness that we talked about in the first-quarter call and that we would acknowledge again today.

John Shanley - *Susquehanna Financial - Analyst*

Our sales in the Eastern European market, as well as other emerging markets not only Russia but China and perhaps even India, are starting to show some traction in terms of sales momentum?

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Eric Wiseman - VF Corporation - CEO & President

We have had great moment over the last year or so in the markets you mentioned -- China, Russia, India and in certain parts of Mexico and Latin America. We have got traction in those markets and are getting strong growth in those markets.

John Shanley - Susquehanna Financial - Analyst

Are the operating margins in those markets as strong as they are in both the US and Western Europe?

Eric Wiseman - VF Corporation - CEO & President

No, they are not. We're investing for growth there and we're getting the growth, but we're making the investments to build our brands at this time.

John Shanley - Susquehanna Financial - Analyst

Okay, I understand. The last question I have is for you, Bob. Can you give us an idea of what the currency benefit in the quarter was in terms of foreign sales?

Bob Shearer - VF Corporation - SVP & CFO

On the bottom line, it was I would tell you on the EPS line it was just a couple of pennies. On the top line, it was 3 percentage points.

Operator

Mitch Kummetz, Robert Baird.

Mitch Kummetz - Robert Baird - Analyst

I was hoping to get a look more color on the operating margins for the quarter. I know outdoor obviously came in quite a bit better than expected. I think you had said on your last call that the plan there was for about a 50 to 100 basis point improvement over last year. I'm guessing you are more positive on that now given where Q2 came in.

Eric Wiseman - VF Corporation - CEO & President

Are you talking about for the full year?

Mitch Kummetz - Robert Baird - Analyst

For the full year, yes.

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Eric Wiseman - VF Corporation - CEO & President

We continue to expect that improvement. Remember that the second quarter is a smaller quarter, so it does not have maybe quite the impact that you might imagine. So we still expect to see the same level of improvement that we talked about in the quarter.

Mitch Kummetz - Robert Baird - Analyst

Okay. And then on Jeanswear margin down there, about half of that was for the reasons that you mentioned. What was the other half? Was it just a function of the volume? And can you maybe speak to the volume being down there? Was it for the same reasons that you saw in the first quarter?

Bob Shearer - VF Corporation - SVP & CFO

It was. So after you sort through the unusualls, it was down about a point. Okay taking into consideration the unusual items, and there was one other thing that does stand out. And that is that we did recognize a \$4 million provision in our US businesses associated with some troubled retailers.

Mitch Kummetz - Robert Baird - Analyst

Okay. Alright. And are you still seeing sort of trading down at Wal-Mart? You spoke to that on the last call.

Eric Wiseman - VF Corporation - CEO & President

Yes, I spoke to that in the last call. And I think in general in every channel of distribution customers are experiencing some trade down, and that helps us in some places. Because if there are people who did not use to shop at Wal-Mart that are shopping there, we have great brands for them there. But the people within Wal-Mart who are trading down to the lowest price point, that is not where we are.

Mitch Kummetz - Robert Baird - Analyst

Right. And then lastly on the margins, obviously your international and retail businesses performed very well for the quarter. Could you speak to the profitability of those businesses and kind of how that profitability compares to a year ago?

Eric Wiseman - VF Corporation - CEO & President

Just on the international retail?

Mitch Kummetz - Robert Baird - Analyst

Both international and retail. No, international and retail. Not international retail.

Eric Wiseman - VF Corporation - CEO & President

Well, in any given quarter, the profitability is obviously impacted by the number of new store openings. So on the quarter, the retail businesses overall in the second quarter actually reduced the overall profitability, reduced our overall margins. But again, it has a lot to do with the number of new store openings that took place during the quarter. Again, the exact thing that we see,

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that we see in the course of the businesses (multiple speakers). Right. So, on the second quarter as we talked about, the seasonality of those businesses has an impact in any given quarter. And the second quarter being the lowest quarter of revenues has that kind of impact. So it grows and we would expect to see more of that same kind of thing as we go forward.

Now in the fourth quarter, however, that situation reverses itself. The fourth quarter being a very strong quarter, the profitability of our retail businesses being quite strong in the fourth quarter, and you will see improvement and retail driving up the fourth-quarter margins.

Mitch Kummetz - *Robert Baird - Analyst*

Right. And then how about on the international side?

Bob Shearer - *VF Corporation - SVP & CFO*

Relative to retail?

Mitch Kummetz - *Robert Baird - Analyst*

No, just relative to a year ago in terms of the profitability of that business.

Bob Shearer - *VF Corporation - SVP & CFO*

The thing once again keep in mind on the international side is particularly in jeans. Once again, it is the seasonality issue. The second quarter for international jeans businesses is the lowest quarter for that business. So what happens is the currency impact drives the revenues up somewhat, but there's just not a lot of profits. So it does not have the same impact on the overall profitability.

So the profitability overall was pretty much comparable to last year, but then so the seasonality is low in the second quarter.

Mitch Kummetz - *Robert Baird - Analyst*

Okay. Alright. That is helpful. And then maybe just one last question. On the tax rate, obviously you saw a benefit in the quarter. Are you still looking at for the balance of the year kind of 33.3 in terms of the tax rate?

Bob Shearer - *VF Corporation - SVP & CFO*

Yes, right about 33 for the last two quarters.

Operator

Omar Saad, Credit Suisse.

Omar Saad - *Credit Suisse - Analyst*

I thought I would take this opportunity, Eric, given that it is Mackey's last call, to have you perhaps prioritize kind of your view on the opportunities and the highest -- the opportunities with the highest importance, the highest return opportunities whether

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it is retail or emerging markets or acquisitions. As you look to kind of take this company to the next level, if you will, in the coming years, how do you think about the growth opportunities for this Company, and where do you think the best, easiest high return opportunities are that you're going to pursue most aggressively as CEO?

Eric Wiseman - VF Corporation - CEO & President

Sure. I will try to do in 60 seconds what we laid out on January, early January in four hours about what our growth plans are for the next five years. Because that is what our agenda is today at this Corporation. It has not really changed -- it certainly has not changed since January.

We see terrific opportunities in lifestyle brands. We're winning where we have strong lifestyle brands. We will continue to invest in those brands and continue to get growth, particularly right now in the outdoor space. We talked about terrific outdoor growth contributing in our past from \$7 billion to \$11 billion.

We have also talked about increasing our international business from 28% of our mix -- that is 28% of \$7 billion -- to 33% of \$11 billion over the next five years and increasing our owned retail business from 14% of our business to 22% of our business. So international growth in total and owned retail, big, big drivers in growth.

At the same time, we have really large businesses and big US customers. In our growth plan, we have those business relationships baked in for \$600 million worth of growth. We will continue to make acquisitions along the same path that we have talked about. Our priorities right now are in outdoor and in our contemporary brand space. We have made a commitment to get into the contemporary brand business. When we talked about it in January, we had just 7 For All Mankind and Lucy. And now we have added the one-third ownership of Mo Industries to that opportunity and still looking in that space.

So I tried to be quick. It is a long subject, but those are our priorities.

Omar Saad - Credit Suisse - Analyst

Great. Do you prefer -- if you think about a fixed resource environment, at least hypothetically, do you see emerging markets international as a greater priority than retail or acquisitions, or do you kind of see all three being equally important?

Eric Wiseman - VF Corporation - CEO & President

I think part of our success is we are able to invest in and get growth from many different agendas. And I think for us to be sitting here five years from now as successful as we are today, we're going to invest in all of those in the balanced way that we laid out in that plan because we want to be strong in all those areas. We think that is what will keep us strong five years from now.

Omar Saad - Credit Suisse - Analyst

Okay, great. Mackey, congratulations and best of luck in the future.

Mackey McDonald - VF Corporation - Chairman

Thanks, Omar. I appreciate it.

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Operator

Todd Slater.

Todd Slater -- Analyst

Mackey, you have positioned the Company incredibly well. You will be missed. My questions are -- I have three questions. I was wondering if you can give us a little color on how the bookings are shaping up across the coalitions? Not the specific numbers, just maybe a little more color on what the retail (multiple speakers)

Eric Wiseman - VF Corporation - CEO & President

We're having a little trouble hearing you. Could you speak up?

Todd Slater -- Analyst

Okay. Is this any better?

Eric Wiseman - VF Corporation - CEO & President

Yes. Thank you.

Todd Slater -- Analyst

So I have three questions. The first one is if you could give us a little color on how the bookings are shaping up across all the coalitions? Secondly, just if you can give us any sense of why the reason behind the reduction in new store growth? I think there was maybe a fallout of some stores there. And then lastly, just in terms of the midteens operating margin expectations in the back half, it sounds like if I understand you correctly, you're expecting some positive comps in the retail stores but at a lower-level than you have experienced in the first half. That seems a little more conservative. What do you assume will occur in the department mass channel wholesale side of the business? What trends are you expecting there in order to hit your projections?

Bob Shearer - VF Corporation - SVP & CFO

Let me deal with the bookings thing because some of our business have bookings and some don't. Where we -- probably the best way to answer that is our revenue guidance for the year got moved up just a tick to \$7.9 billion.

In this environment, and I'm sure you appreciate this, but in this environment we have good indications of bookings or we would not be that aggressive with our revenue outlook as tough as it is out there. So where we have bookings, they are strong and strong enough to support increasing our revenue guidance just a little bit.

In terms of the reductions in new store expectations, I think our guidance at the beginning of the year was 75 to 100. So the guidance that we have put in this draft is over 90. So we have not really reduced that. There is some execution at least. We have not changed our strategy as much as the opportunities are actually falling into the high-end of the range of what we thought was possible.

The last question on margins, I'm going to turn over to Bob.

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Bob Shearer - VF Corporation - SVP & CFO

Unfortunately I could not hear. What was the question?

Eric Wiseman - VF Corporation - CEO & President

The last question had to do with midteen operating margins in the second half of the year. Is that right, Todd?

Todd Slater - Analyst

Yes, and I was curious about what your expectations were on the wholesale side of the business, on the department store mass merchant area, what sort of trends are you expecting? You said that you expected a little bit of a deceleration in the comp store sales trends in your own stores, so I was curious as to what you are expecting on the department mass channel.

Bob Shearer - VF Corporation - SVP & CFO

Yes, specifically in the mass channel, our margins should hold with where they have been historically. So we are not anticipating any kind of significant decline relative to -- I mean you talk about margins. I assume you're talking about the operating margin level?

Todd Slater - Analyst

I'm just talking about business activity. I mean do you expect those partners to continue to, let's say, outside of the discounters, the mass and midtier, the Penney's, the Kohls and Macy's, to the better stores. Do you expect those comps to still be negative? I mean if they continue to have down comps, are you still comfortable with your assumptions?

Bob Shearer - VF Corporation - SVP & CFO

We are comfortable with our assumptions. We think we have factored in conditions at retail in terms of the numbers that we put out there in our margins.

Todd Slater - Analyst

Okay. That is helpful. Thank you.

Operator

Robby Ohmes, Merrill Lynch.

Robby Ohmes - Merrill Lynch - Analyst

Just a couple of quick follow-up questions. First, can you give us a sense of how on your retail stores how the outlet comps were versus the full-line store comps, and if there's any sort of change in the relative performance between those two?

And then second, I just wanted to clarify for the fourth quarter on your owned retail, is it still primarily North Face and Vans as the key driver, or is there something else that you're expecting to kick in this fourth quarter as well?

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And then finally, I might have missed it, but if you have not given an update on sourcing costs, I would love to hear it.

Eric Wiseman - VF Corporation - CEO & President

Okay. I will take a shot at the first two of those, and then I will let Bob swing into gear on the sourcing cost. I do not have specifics for all the outlet stores we have worldwide versus all the full-price stores we have worldwide and what the comps are for those.

I will tell you as a general rule, and this is going to be kind of the statement of the obvious, but our strongest brands that have retail formats, those stores have really strong comps. Stores like our John Varvatos stores, our Napapijiri stores, our North Face stores, our brand stores are having very, very strong comps in this environment.

Our pure outlet stores are not fairing as well. So in the range of performance, at the high-end you have our strongest best performing brands overall. At the low-end, you have some of our outlet operations. Is that -- I hope that is helpful to some degree because that is as good as I can do with what I have.

The fourth quarter was your question, I'm not sure understood your fourth-quarter retail question.

Robby Ohmes - Merrill Lynch - Analyst

Sorry. My question was you called out the North Face and Vans in particular I believe this quarter in the outdoor coalition. So, as I'm looking at retail and the strength you're expecting for the fourth quarter this year, by brand is it North Face and Vans primarily that is the driver to the growth or are there some other brands that I should be thinking about on the retail side that helped with that profit mix shift you guys are expecting?

Eric Wiseman - VF Corporation - CEO & President

Well, for sure our own full-price retail executions into North Face and Vans are performing very strongly for those brands are big contributor to the growth numbers that we gave you for both the North Face and Vans.

In fact, in the North American part of the Vans business, the retail business, the owned retail business, is over 50% of the business. So they are very successful, and they are performing well.

And then I would have to go back to my earlier comment, that strong -- all of our strong brands will have a good holiday business, and we expect that to continue. Bob, do you want to add anything to that?

Bob Shearer - VF Corporation - SVP & CFO

You were talking about profitability, right, in terms of margins in particular as well?

Robby Ohmes - Merrill Lynch - Analyst

Yes, no, I mean I understand the retail mix shift. I'm just trying to conceptualize how much of this is really you're expecting very strong comps at North Face and Vans in particular to drive that retail mix shift in the US to support the fourth-quarter earnings growth.

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Bob Shearer - VF Corporation - SVP & CFO

Yes, and of course, Nautica is a piece of that as well, particularly from a profitability side. As we have talked about, we had a particularly tough quarter last year's fourth quarter, and we do expect to see some significant improvement there.

Robby Ohmes - Merrill Lynch - Analyst

And then just on the sourcing costs?

Eric Wiseman - VF Corporation - CEO & President

Pardon me?

Robby Ohmes - Merrill Lynch - Analyst

On the sourcing cost question?

Eric Wiseman - VF Corporation - CEO & President

Sourcing costs. Yes, Robby, we have been working hard at getting in front of the cost increases that have been anticipated by us and others. And net of cost reductions that we see and again are working very diligently against, we think that our overall product costs right now look like they would increase in the low single digit area.

Robby Ohmes - Merrill Lynch - Analyst

Great. Thanks a lot.

Operator

(OPERATOR INSTRUCTIONS). Jared Orr, Morgan Keegan.

Jared Orr - Morgan Keegan - Analyst

I see your corporate expenses came down \$10 million year-over-year from the first half of '07 to the first half of '08. I was just wondering how that was accomplished and what the outlook for the remainder of the year was for the corporate expenses?

Bob Shearer - VF Corporation - SVP & CFO

Corporate expenses have been running down. We indicated that -- and again, it's a little benefit catchall, so we will just have to be a little bit careful with that because some miscellaneous items flow through there.

But we have been cautious about our spending. In this environment we felt that is the prudent thing to do, and for VF Corporation we would like to see those dollars against promotional activity within our businesses.

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Jared Orr - Morgan Keegan - Analyst

Alright. Thank you very much. Also, you guided to a \$0.02 dilution for contemporary brands in 2Q. On our math it looks like it is a \$0.01 or \$0.02 accretive. Are we doing this correctly, or was there any accretion better than the guidance?

Bob Shearer - VF Corporation - SVP & CFO

The accretion related to the acquisitions was better than we anticipated by a few pennies. The 7 For All Mankind business, the contemporary brands coalition really had a strong quarter, particularly from the profitability side. So yes, it was \$0.02 or \$0.03 stronger than we anticipated.

Jared Orr - Morgan Keegan - Analyst

Alright. What level of accretion do you have embedded for the whole year?

Bob Shearer - VF Corporation - SVP & CFO

That number was around \$0.10 I believe, and we are still on track or maybe even a little bit better. Our plans -- again, we're running a little bit stronger than our plans had indicated.

Jared Orr - Morgan Keegan - Analyst

Got it. And your FX impact, do you know what assumptions for a (inaudible) rate you're using for the third quarter and fourth quarter?

Bob Shearer - VF Corporation - SVP & CFO

Through the third quarter? We use 155. Again, just a little bit below where it is today. And for the fourth quarter 150. That is what is built into our expectations.

Jared Orr - Morgan Keegan - Analyst

Alright. Thank you very much. Good luck.

Operator

Christian Buss, Thomas Weisel.

Christian Buss - Thomas Weisel - Analyst

Congrats on a nice quarter. I just wanted to ask about some of the SG&A investment in the outdoor coalition. Did some of that get shifted into 3Q?

Eric Wiseman - VF Corporation - CEO & President

No, there really was not any shift. Again, there were a couple of things that took place there.

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One, the volume was higher. So some of that spending that we felt would stand out more in the second quarter did not so much because of the increase in volume. That is always the best way to absorb expenses.

Another factor was that we pointed out when we laid out the second quarter and provided the guidance, we also talked about an area like distribution. And once again, it was just taking an awfully close look at our costs, we were able to actually reduce our distribution spend by being more efficient on the distribution side. So again, really addressing those areas that we felt would present a little bit of higher expense to us and really getting on them and had better performance overall. So we were really pleased with that.

So no, it is not a shift into the third quarter. Just better absorption, a little bit lower spending overall than anticipated.

Christian Buss - *Thomas Weisel - Analyst*

And you guys have been able to -- (multiple speakers)

Eric Wiseman - *VF Corporation - CEO & President*

(multiple speakers) -- not in areas that will drive future growth, that will drive revenue growth in areas -- in other areas.

Operator

We have no further questions in the queue at this time. I will turn the conference back over to Mr. Eric Wiseman for additional or closing remarks.

Eric Wiseman - *VF Corporation - CEO & President*

Thank you and I appreciate all of you joining us here. We are quite proud of what we accomplished in the second quarter. It has been a long time since we have had to work in this difficult an environment, and I'm very, very pleased that we have the business model that we have and proud of the management team and the associates at VF that are so focused on executing and making this environment be as good as it can be for our shareholders.

I appreciate you joining us. I will talk to you next quarter. Bye.

Operator

That concludes today's conference. You may disconnect at this time. We do appreciate your participation.

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