MANAGEMENT DISCUSSION SECTION

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Please welcome VP, Investor Relations and Corporate Development, Lance Allega; and Director of Investor Relations, Carrie Gillard.

Lance Allega, Vice President-Investor Relations, Under Armour, Inc.

All right. Thank you. Good morning everyone. Welcome to Under Armour's 2018 Investor Day here in Baltimore. We appreciate you taking the time to spend the day with us and as you know we've been waiting for this day for a long time.

That said let's turn to the always fun slide where we like to remind you that both the participants and the materials presented today will contain forward-looking statements. These statements are based on current expectations and are subject to certain uncertainties that could cause actual results to differ materially. These uncertainties are detailed on the slide behind me and documents that are filed regularly with the SEC, all of which can be found on our website at uabiz.com.

Additionally we'll reference certain non-GAAP financial information today including adjusted amounts which we feel more accurately represent the true operational performance and underlying results of our business. More information regarding these non-GAAP measures is available on our website and a reconciliation to the nearest GAAP measure will be available in our press release being filed later today, which will also be available on our website.

With that [indiscernible] will take you through a quick overview of the day.

Carrie Gillard, Director, Investor Relations,

Okay. So we're going to kick it off with some opening remarks and an overview on our transformation. We'll then dive deeper into digital and how we're activating around the consumer. We'll then take a quick break come back up go over our innovation and supply chain before switching over to the regions where we'll talk about each of our four category region leads and then go into the categories.

After lunch we'll do a category rotation breakout or I'll give you a deeper dive into how we're organizing around those four categories. And then come back here to wrap-up the day with the financial overview and Q&A.

With that let's get started.

[Video Presentation] (00:03:56-00:04:45)

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Now taking the stage, Founder, Chairman and CEO of Under Armour, Kevin Plank.

Kevin A. Plank, Chairman & Chief Executive Officer, Under Armour, Inc.

Thank you, and good morning, everyone. Let me begin by welcome you to Baltimore Maryland here to our house at Under Armour's global headquarters as well as to all those that are tuning in via webcast this morning. It was great to see many of you last night at our living and retail lapse store. And we want to thank you for your purchases and the help toward the positive margin for the quarter. And also how that translates into some of the workouts that we got to witness this morning too, and so there were a lot of positive energy I'd say in the gym this morning.

The video that you just watched is what we call are you a voice, and it's meant to capture the energy, the passion and the momentum of exactly who our brand is that's Under Armour. It's why we exist, it's why we're here, and it's why we do what we do? And we're extremely proud, confident and optimistic about how all the hard work that we've been executing against over the past few years sets us up for an amazing journey that we just planned to describe for you today.

So here we are. December 12, 2018 and let me begin by telling you that's a privilege and an honor to be standing in front of you here today and to lead this brand. There are a lot of familiar faces in the audience as well as to new ones. So along with all the folks listening in on our webcast, we truly appreciate you taking the time out of your very busy schedules to visit us and hear our story.

Over the next roughly eight hours, we plan to take you through a very thorough deep dive. It's a story – a story of an entrepreneurial culture, one centered in agility and a relentless drive for innovation, growth and continuous improvement. It's a story of resilience, one of staying strategically grounded and guided by a powerful mission and vision and a complete set of values. And it's a story of transformation with the strategy, momentum and balance necessary to drive success well into our next chapter.

Since our beginning, there has been this constant state of dynamic change both internally and externally. It's what you have to do to be an entrepreneurial growth company and to keep pace with this change and ideally stay one step ahead, we have to always be constantly looking to see how we adapt, consistent adaptation. Adaptation, in fact is the very reason Under Armour exists. As an American football player unnecessarily heavy sweat laden apparel was impeding our performance. The extra weight and lack of breathability contributed to a heavy t-shirt, greater overall fatigue and was a problem that no one had thought to address differently. Not until we created Under Armour. Holding that pursuit of providing performance solutions for athletes and then,

getting it done, done, done to drive growth at an uncompromising pace was our plays book always on and like an athlete always improving. This is the bedrock of what Under Armour's purposes athletic performance and the entrepreneurial culture that makes it happen.

So now in our 23rd year in business, our 14th as a public company our ability to innovate, adapt and improve is stronger and holistically more capable than it's ever been. It's an unbreakable part of our DNA. And at the center of Under Armour's reason for being is our passion for sport and that's our place in the world becomes larger. Our purpose and responsibility as a brand and company also become greater and the world strife with excuses to divide us as a people, sport serves as a great equalizer and we are proud of our ability to drive that positive message around the globe.

From the founding role of the Olympics to America's ping-pong diplomacy and Nelson Mandela's Rugby World Cup showing, the Sandlot Baseball to one-on-one basketball or a packed stadium with friends, the gym, the pitch, the court, the dirt, gravel, wood, grass, snow, water and ice, sport unites us all sport. Sport connects us. Sport heals us. Sport inspires us and as a human performance company our job is to advance human performance through innovative products and premium experiences we equip athletes to be better and ultimately to stretch the boundaries of what's possible both individually and collectively.

Looking at the past, present and future we believe it's less about what will be different 5 years, 10 years or 50 years from today. But we said about, how we focus on those things that we know will be the same and in our position our right to drive them. What we believe one of those constants will be sport and its role within health and wellness as a driver of how we will choose to live our lives.

We believe this is an incredibly powerful position for our brand that will ensure a consumer need for our expertise specifically. Regular exercise, a healthy diet, consistent sleep, it all leads to a host of well-known benefits including increased energy, happiness and overall improved mental and physical health and it's working. With longer life expectancies, rising standards of living, significant global middle-class growth, our strategic focus on athletic performance at the intersection of fitness, activity, sleep and nutrition is plain and simply a great business to be in.

So where are we at the end of 2018? We're roughly two years through what we've defined as a three year transformation for our business. And over the past two years, we've been successfully executing against the strategic, operational, and cultural transformation to become smarter, faster, and stronger. But before we provide more context about this part of our journey, it's important that we revisit how the necessity for this moment in time actually came to be. In this respect, you'll hear each speaker today detail our strategies, targets and what we refer to as the reasons to believe to conclude each segment. We'll explain our story through three chapters of roughly three years each to take a look, number one in the rear view mirror, and what we've learned, to describe the here and now to explain how we'll protect what we've built, and as we move forward give color around our expectations and how we plan to create balance, agility and consistency across our business while positioning Under Armour for additional future growth. So, let's begin with the look back in the rearview and the strategy that we targeted and a chapter that we'll call get big fast.

During this time our goal was to utilize our North American business to drive scale for our company to position us for the future including utilizing our North American strength and profitability to fuel our global ambition. This was actually written on the white sport in my office. To create scale and innovation, products, sport categories and a global footprint ultimately scale to be able to compete on the bigger global stage. It was actually in 2010, when we first crossed $1 billion in revenue and then had double the business again by 2013, and then doubled again from 2013 to 2016 fueled by strategic growth in North America. We actively pursued what are still our largest long-term growth opportunities, footwear, women's, international and direct-to-consumer.

During that time our footwear business more than tripled from $300 million to crossing a $1 billion. Our international business grew more than five times to over $700 million. Our direct-to-consumer business doubled from $700 million to just over $1.5 billion in revenue. And all of this rolling up to nearly $5 billion by the end of 2016, a course that's certainly met our strategic objective of getting big fast.

Along the way we delivered industry leading innovation built an amazing roaster of athletes, teams and leagues, accelerate our footwear business and expand that our distribution while gaining traction in our international business. In some aspects though, we grew so quickly that we lost focus on one of the core elements of success, keeping the business simple. All of this then of course contributed to an operating model that became more and more complex. Rapid growth requires significant investment and resources resulting in expansion across vendors, SKUs, contracts, categories, products, systems and countries. From a new distribution center, every other year to our teammate head count nearly doubling to office expansions and our first, second and third acquisitions, we challenged ourselves to get big fast and we succeeded. And along the way as we gain scale at a rate faster than anyone had ever done before in our industry, including 26 consecutive quarters of 20% plus top line growth that built one of the largest athletic performance brands in the world and we are proud of this chapter and what we accomplished. Yet, for as much as this period generated amazing milestones, a number of internal and external factors conspired toward the end of 2016 that confronted us with an inflection point to reassess the foundation that we had built. And untimely the need to address the issues related to that rapid expansion.

Quickly touching on some of the external factors that impacted us and in our largest market here in North America, bankruptcy's, channel dislocation, changes in consumer preference and internal intensified competition that we saw drove elevated promotional activity all of which disrupted the overall retail landscape. And as we expanded our distribution, we learned that we could have been better with differentiation among our basic core products to cut through some of the noise.We learn that our segmentation strategy needed to be sharper and our pricing strategy more prescriptive across how and when consumers engage with our brand. Our clearest takeaway from all of this, the strategy that got us through 2016 could not be the playbook for our next chapter, we had to evolve.

And at the center of this – the center of this was a brand that we had built to endure. And thankfully a brand that indeed played a much bigger role on the world stage than the underlying company was positioned at that time to support it.

It was then in 2017 that we entered our current chapter. We have regrouped and stated our goal of going from a great brand and a good company to a great brand and a great company with operational excellence. By focusing on running a smarter, faster, and stronger business we committed to protecting what we built, we committed to as we call this chapter protect this house. It's appropriate.

And this effort one of the very first things that we codified was our vision and our mission. As a North Star these work hand-in-hand to validate direct and guardrail why we operate and how we operate. This is the challenge of growth of how you communicate this type of messaging across an organization. So it had to it had start at our roots and it had end with our team; why do we do what we do, and the passion that it takes to do it?

Our vision is something we spent a long time really trying to clarify for organization and then finding these words to inspire you with performance solutions you never knew you needed and can't imagine living without. That means something so great that if you planned on using Under Armor as you'll hear today in that active use occasion andyou got in your car and you drove and you're on your way to go participate or perform and realized you didn't have your Under Armour it would make such a difference to you that you would feel compelled to turn the car around and go back home and get it because you need the brand because there is a super power inside that makes you that much stronger and faster and better.

That's the gift that we give to consumers. Our mission statement was much simpler. We had a longer version of these words, but we realized that this was the essence. This was the distilled version of what and who we are. Simply put, Under Armour makes you better. Everything we do every athlete, every team, every league, every product of course must make you better. Every engagement with consumer must do that. Once the vision and mission were formalized, then we turn to organizing our values, which at our core is what our culture was is and will continue to be built around. We actually reached out had more than 400 teammates from our more than 41 offices all over the world to 70-some countries contribute to writing these values for us. And from that we had the essence of what our brand is love athletes, stand for equality, fight on together, create fearlessly, always connect, stay true, think beyond, and when appropriate, celebrate the wins. These eight values define our brand and then when the galvanizing forces that ties us together as a global entity.

So once vision, mission, and values in place, next we began a holistic deep dive into our business challenging our structure, costs, processes and decisions. This resulted in a multi-year restructuring effort that's impacted every part of our business.
And along the way we've been decisive proactively addressing underperforming areas of our business including SG&A, infrastructure investments that have now become more than our current growth could support, improving our distribution and right sizing our inventory, simultaneous to balancing investments critical to driving our innovation digital direct-to-consumer international efforts.

And then in the middle of 2017 we brought on Patrick Frisk as our President and Chief Operating Officer, more importantly brought on a partner for myself, for our executive team, and for the company. And Patrick's been instrumental in helping us transform our operations and our strategic playbook.

His reengineering and streamlining of our go-to-market construct is the backbone of our new way of operating as a business, a highly refined way that redefines growth in innovation to serve our customers and reaching our consumers. From a designer's rendering on a piece of paper to an athlete's closet in active use, we've rectified the redundancies install points to supercharge our ability to get stronger, faster, and smarter.

Many of you wondered if we'd click as partners probably too for this over the years or if it helps here's a photo of us both taken in New York last week when we got together, both of us unbeknownst to one another showed up at this shoe wearing the exact same thing. That Under Armor sweater, the shirt, the pants, the UA Forge 96 shoes. So if you have any questions we are certainly in sync I'd say. There you have it.

And in 2017 we also took additional steps. We upgraded our main ERP engine starting first in North America and Europe with SAP's fashion management system to ensure that the efficiency we're targeting is well supported with intelligence in data to ensure repeatability.

No forces of nature, no diving catches, but systematic repeatability. This significant improvement gives us improved decision making, sharper planning acumen and a better ability to manage our inventory which based on this year alone was well worth last year's challenges that we faced. In fact, over the past year we've learned a number of really important lessons that will apply as we implement the same system in Asia heading into 2019. All of this of course works to support what we believe to be a unique competitive advantage, which is our greater digital ecosystem.

Now, counting more than 250 million downloads as a part of Under Armour's connected fitness platform, where we remain the largest health and fitness community in the world. And still with tens of thousands of downloads occurring each and every single day, nearly 70,000. With Paul Fipps, our Chief Digital Officer getting into greater detail about this a bit later this morning. I'm sure, you'll understand why we're excited about centralizing convergence and acceleration across our digital ecosystem that we believe will help us sell a lot more shirts and shoes.

But none of this works well without great products. It's the foundation for any performance brand. And as one of the world's largest athletic performance companies. Innovation is what wins the day. So, in this respect, we've amplified and accelerated our innovation agenda, in addition to completing the transition to our category management structure. So, later today you'll hear from our Chief Innovation Officer,

So later today, you will hear from our Chief Innovation Officer, Clay Dean and our Chief Product Officer, Kevin Eskridge who will underscore how our new approach centers are world-class technologies to create performance products that will delight and inspire athletes well into our next chapter and beyond.

And after lunch, we'll have you tour the building to see products and hear from some of our category leaders in the core key areas of training, running, core sport, as we define it and sport style footwear. You'll hear the vision and see some of the exciting innovations and great product that's coming soon. Speaking of which you hopefully returned to your hotel rooms last night to find a pair of our new HOVR Infinite connected footwear, the running shoe that comes with its own app to both track as well as to coach you when necessary. And the workout in those shoes this morning was certainly optional, but the performance is of course undeniable. So of course, getting the product made and getting the product made quickly, profitably and responsibly is critical to our mission and to that end, Colin Browne, our Chief Supply Chain Officer will provide an overview of the transformation in this part of our business which leads simply to running a better company, creating sustainable opportunities for gross margin expansion, critical part of our business.

You'll also hear from Jason LaRose, Massimo Baratto, Manvelov [indiscernible], Jason Archer and Cristina May, the respective leaders of North America, Europe, the Middle East and Africa, Latin-America, Asia-Pacific and China, our regional heads, again apart of the operating model that we be hard at work implementing the last two years. Highlighting how we're collaborating strategically and operating with discipline to protect the Under Armour brand while driving optimal

business results. So in 2018 as we call our steadied base, 2019 the last year in our Protect This House chapter, we've gotten organized, we've got to work. And now we're executing holistically within a new operating model working to increase our agility and profitability, a full and strategic activation with tangible payoff that you will see laid out here today across with the 23 executives when you take into account all the presentations today.

And just as every athlete knows there is no perfect binary moments with the hours to greaten the effort to get sharper, stronger, and faster instantly pay off. But it's more about the cumulative journey and the ability to be consistent over the long-term. It's more about the progress, one more rep that becomes a little bit easier, 10 more seconds off your mile time. Not quite as sore the next morning. A little bit more every single time. This is sport, this is what we do and this is the team that we put together to engineer how we can do that for our business.

In parallel that's where we are seeing these changes pay off and having a clear line of sight to what this transformation will yield. And at the center of this is a clearly defined target consumer that you will hear us consistently refer to today as the focused performer. Something that just two years ago frankly we were not as decisively organized around, a focus that is now so sharp and embedded into our culture, our operations, and our decision making, having the consumer at the center of everything that we do as a company that I've never been more energized confident and excited about our future as a brand and a company coupled with our continuous improvement mindset. We are the best at getting better with purposeful move on, quick learning to ensure that we do everything we can to mitigate potential setbacks while always taking advantage of the opportunities we have to move forward. So with our North American business now stabilized, we're focused on continuing to strengthen our global playbook by applying what we've learned in our largest market, more holistically across our international portfolio.

In 2019, this means standardizing systems, optimizing operations and managing our business and inventories in a controlled manner to maintain our premium positioning to protect the Under Armor brand. These were some of the lessons that we learned here at home in North America over the past couple of years. And we will not let those go in vain. You will see a supply that earned wisdom as we approach our growth strategy in the three other regions of the world as we move forward, to be smarter, to machine learn and make sure that those lessons are always used to help make us better.

So today, using 2018 as a base year, we will share with you a five-year view out to 2023. With the heavy lifting and critical mass of the PROTECT THIS HOUSE transformation relatively behind us by the end of 2019, the stability we've established will transition into the 2020 to 2023 chapter where we expect to perform with balance. And there you have it, the Investor Day event branding explained. Get, big, fast, check, Protect as in Protect this house, we're making it happen through year two of a three-year process.
We're making it happen through year two of a three-year process perform as in performed with balance, that's where we put ourselves in a position to do. And interestingly enough balance is actually one of the foundational elements the Under Armour logo. You see here it was intentionally actually designed this way with if you look at our logo the top is the same as the bottom, the left is the same as the right, the same way that we expect our product to perform for the athlete, to never allow you to get too hot, to never allow you to get too cold but just to keep you in the center place. That is one of our advantages.

So we think about that. This is also something that allowed us to inspire what and where we are. This is what inspired the ethos of Under Armour performance, and it will continue to inspire the next chapter as a business, balance.

So take it in the summary we're seeking better balance across all aspects of our brand. And to that effect toward the end of the day you'll hear David Bergman, our Chief Financial Officer, who will take you through what it all means from a financial perspective. And at the highest level through smart marketplace management an optimal supply and demand execution, the definition of growth for Under Armour will continue to evolve. And at that balance we will manifest itself across multiple levers including revenue, margin, SG&A, and CapEx to establish the agility necessary to deliver more consistently in both good and challenging times.

And as we look out to the future the simplest way to sum up our view is done through our strategic pillars of products, story, service, and team. And as we've always said the foundation I called them my job description and they became our pillars.Today, they are just anchors of how we define our strategy as a business to always make great product, foundation number one. To ensure that we're telling a great story about our business, about our products, to ensure that we're always servicing our business and getting there on time and to of course, most importantly, to build the world's greatest team of people to help us execute on these things.

So starting with products as we say we have yet to make our defining product as a brand. You'll hear that today. As that challenge constantly sits with our innovation and product teams and that pursuit is healthy. It's a never ending perfectly imperfect obsession. Higher degrees of performance to help athletes push themselves even further and advancing human performance is what inspires us, motivates us and is the unlock for how that we think beyond. We think beyond for our consumers to provide them with performance solutions they didn't even know they needed. And once they have them they can't imagine living without. From fitness to nutrition to sleep recovery and having the data to measure progress, we sit at a wonderfully opportunistic intersection to do more, to be more and to engage more across all facets of our consumer's lives. Our role is to deliver innovative products that gives them the edge, longevity and direction they need to achieve their health, fitness and life goals.

Style, performance and fit, UA's SPF. It must be this at the center of every single item that we build that we design. Performance for style is where we meet the consumer to deliver product and experiences they've come to expect from our brand. With the SKU reduction, shorter calendar, regional structure and category lead focus, we've employed over the last two years, we are now positioned to bring sharper and more consistent product to the market than ever before and with the pipelineof innovation, stacked to drop methodically and precisely when the consumer needs it, we have a formula to win. This formula will be activated and executed through our storytelling and our singular consumer focus. So later this morning, you'll hear from Jim Mollica, our SVP of Consumer Engagement and Attica Jacques, our V.P. of Global Brand Management who will take you through more detail on exactly who our consumer is and how we are evolving to engage them even more deeply.

This means delivering higher return for every dollar spent. It means more always on always connected brand, right conversations with our consumer and communications creating deep and personal bonds with our brand evangelists.

Next up is, service which means that we're 100% committed to running best practices and delivering performance and returns to our stakeholder trinity of consumers, customers and shareholders. For our consumers, this means delivering industry leading innovation and our pipeline is full of products and experiences for them. For our customers, it's about heightened levels of service, partnership and mutual pass towards sustainable profitable growth. And for our shareholders, it's about delivering sustainable returns driven by repeatability and consistency. In filing, that takes us to a team in the cultural evolution that continues to take place amid this continuing transformation. This concept of protect and perform apply here and they apply with equal vigor because when done in concert, the values that we've cauterised is the basis of our culture from standing for equality to fighting on together and creating fearlessly to staying true and thinking beyond. We are a powerfully strong family that loves athletes in sport

family that loves athletes in sport and there is much to be proud of as we stand here in 2018. From pushing the boundaries of athletic performance through meaningful apparel and footwear innovation to building a brand on the global stage founded by simply a better T-shirt. We believe that what you'll see here today sets us up to deliver consistently for our consumers, customers and our shareholders.

We are clear headed and resolute, we're aware of how special the brand is that we've built. The opportunity that we have and you'll see us continue to drive to build through it. It is by no means god given that we get to exist. We have to earn that every day from the consumer and we plan to every single day.

So with an excellent team of leaders and a team of leaders that you expect to hear from today, I invite you to engage with this brand to understand where we've been, where we are and where we're going. We have an opportunity unlike any that's been seen in our industry before and we expect to take every advantage toward grabbing that. We are Under Armor and we're proud to have you here today.

And with that I thank you for your time and I'll now turn things over to our President and Chief Operating Officer Patrik Frisk. Thank you.

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Please welcome President and COO, Patrik Frisk.

Patrik Frisk, President & Chief Operating Officer, Under Armour, Inc.

Good morning everybody. As you guys could tell Kevin I actually did call each other this morning to make sure we were wearing different things it would be kind of odd if we both had the same thing. It was actually a true story.

And also thank you for everybody that showed up in the gym this morning. I saw you guys switching over in halftime and some of you looked like you were getting a good workout which is great.

So I'm here today to really – and I'm excited. We're all excited that you guys are here today, because you can only imagine you know the work that's gone into preparing for this day of course. But as Kevin explained to you the enormous amount of work that's happened here over the last year-and-a-half or even two years even before I came in, it's only about a year-and-a-half in now, and I think as I think about that year-and-a-half and the achievements that we have accomplished so far on this journey this three year transformation that we keep talking about. I am actually exactly at the spot that I hope would be at this point in time, and that's why we're so excited today because we feel that we have a really good story to tell. And what I'm going to talk about here today is really two things. I'm going to talk about the protect this house time, which is right now that we're about two thirds through. And then I'm going to give you a little bit of a sneak peek into how that's going to manifest itself in terms of how we expect to perform going in 2020 and beyond.

So what have we been doing? A little bit of a sneak peek under the hood. What have we been working on? Well, we've been doing a lot of different stuff. In 2017 as I came into the building. We really got working very very rapidly on the go-to-market process, it was really important, but we also did some work early on with the stuff that Kevin talked about, making sure that we had the vision, the mission and our values really nailed. It's important when you get going when you reengineer that you start with a vision. You got to make sure that people understand why we're here and where we're going, and the missions that people understand why they go to work every day. And I got to tell you, I'm incredibly excited about having a vision that's all about building things that people don't know that they need and once they have it they can't imagine living without And waking up every morning like, oh, everybody does at Under Armour to really understand that what you're here to do is to make you better that Under Armour makes people better is an incredible calling. It's almost like being you know a physician or a doctor or something and I think it's really inspiring I think. And that's important as a base as a foundation because also remember we're growing and we're a growth company and we're growing in many parts of the world and we want to make sure that as people enter into our organization into our brand we're giving them that vision and that mission and also the values that framework for how we act internally and externally is incredibly important.

The go-to-market, when we think about go-to-market and why it's so important it's really about aligning the entire organization making sure that all of the counters through sales, marketing, product, operations, supply chain are all aligned so that we can work together, as we create product and then ultimately deliver it to the consumer. At Under Armour what had happened there had been many many years of rapid rapid growth. And when you have that kind of growth at some point in time you've got to just take a pause and realign the organization and that's really what we did in 2017. In parallel with that, we also did an enormous amount of work around consumer insights.

Now Under Armour did have consumer insights before, but it wasn't necessarily coordinated and correlated with the go-to-market. And we felt that it was really important to go even deeper than just what I would call the normal consumer segmentation, we actually also wanted to understand the space that we were to compete in, in other words, athletic performance. We wanted to understand where we were in that space, we wanted to understand where we should be heading in that space, and we also wanted to understand the opportunity, and I'll talk a little bit about that as I roll through the presentation here today as well.

And inside of that space, we wanted to make sure we identify the target consumer that we were going to be focused around. And then when we rolled around into 2018 we had some stuff in place. We had some more work to do but we really got to work and it was important for us. We were working against the timeline. We wanted to get to a place where we could really start to affect some of the out years in terms of that holistic go-to-market. And one of the things that we were trying to do was to make sure that we were being more efficient of course, being more effective, but we also wanted to make sure that we were able to shrink the go-to-market, to get a little bit faster, to have more insight as we entered into the go-to-market so that was a really critical thing for us.

We also wanted to make sure that we correlated our innovation funnel our go-to-market for innovation with our commercial go-to-market because it's incredibly important as we're in this athletic performance base as we're creating people product for people that they don't know that they need and then once they have that can't live without There is a need for newness of course inside of that space. But you've also got to make sure that as you are innovating you're actually able to commercialize it. So we had to coordinate and correlate what we're doing in innovation with everything that we were doing in our commercial go to market and Clay Dean, our Chief Innovation Officer will take you through in more detail a little bit later on how that's working out. But we're now really in a stage where we're really in a stage I would say about halfway through 2018 where we were able to actually have that go-to-market for innovation and the innovation for or sort of the go-to-market for our commercial both being coordinated and correlated. And that was really important, a lot of work went into that early in 2018. And then we reduced the time in our go-to-market.

Now why is that important. Well if you think about us initiating a season, let's take spring 2020 as an example, we would have normally started our spring 2020 in April in 2018. Well this year we started our spring 2020 in September
October. Now that's critical to understand because that actually gave us information about all of the sell-through for spring 2018, all of the sell-in for spring 2019, and some of the sell-through for fall 2018. So, in other words we had that much more insight before we even put pen to paper.

Could we get even faster? Yeah, we think we could. But the question is really whether we need to or not, we're going to work through this new 17-month calendar first and then if we need to speed it up, because the process is now so solid and so well coordinated, we can easily do that. But we believe at this point in time, we're really optimized the go to market for where Under Armour is at this point in time with both the wholesale, retail and the distributor business.

So, as we turn the corner here in a few weeks, I can tell you our teams are really keen to turn the corner in 2018 and get into 2019. One of the things that we're going to be absolutely in laser focused on is execution. And we're starting to feel really good about how all the wheels and all the cogs are working together in terms of how our teams are able to supply and you know into the market no matter where we're actually operating in the world, this fall it's been really good that way for us. But we want to make sure that you know as we go forward we're also holding ourselves accountable measuring everything that we do driving through the processes that we've put in place, tuning, tweaking making sure that some of our assumptions around this new timing is actually working. We're going to take all of 2019 to do that.

While we at the same time also manage to marketplace, of course, with discipline. When we started to expand our distribution in 2017, our segmentation wasn't optimized. We believe that as we turn the quarter into 2019, we're much better in terms of understanding through our category management, what products

through our category management what products should go where and when. We're going to drive that through 2019 in a much more disciplined way, not just here in North America, but actually globally. And then, of course, all of this should lead to higher degree of confidence both internally and externally together with some credibility, but also consistency because one of the things that we do want to make sure that we do as we work through our go-to-market is make sure that what we do is repeatable, what we do, we learn from. So the entire go-to-market is actually engineered to rejuvenate itself every season. And so, the insights that you get from previous seasons is incredibly important.

So what I'm going to talk you through now is really this go-to-market and some of the aspects of it and I want to start by talking about the consumer insights piece because I think it's important to understand the decisions we made here at Under Armour around where we're going to compete. So one of the things that we did as we started to do that work in 2017 around the go-to-market was to really make sure that we understood the market space of athletic performance. So we did an enormous amount of work in China, UK, Germany and also in the U.S. We talked about 22,000 consumers and the idea here was really to understand the opportunity not just the space and to understand who we were going to target inside of that opportunity or that space to target consumer so that we could actually go back to our brand, the Under Armour brand and truly understand what the positioning should be of that brand for that consumer in that space.

And we found some fascinating stuff. We decided to focus on the consumer inside of that space that we now call a focused performer and believe me, you're going to hear a lot about the folks performing today from our brand people and from our product people as you start to circulate in our product here this afternoon. But, what was interesting was we took a deeper look at the marketplace and the demand that's created in that place and what it showed us was that we needed to think about the consumer in more ways than we used to in terms of that old school kind of Muse, Jane 24 lives in Manhattan is active. What we saw was that there was an opportunity for us to think about both the emotional drivers here and the functional drivers and really go deeper into the various kinds of activities that that this consumer would do.

So you see here on the slide behind me really the old kind of look the one dimensional 100% of the time kind of look, and then you see the way that we now think about the consumer in the different type of activities this consumer might engage in. What's really important to understand here is that by doing it this way, you actually get a much better understanding of the needs and also what the consumer actually needs to wear what they're looking to wear in these different moments of activity. So in other words the actual consideration actually changes depending on what they're doing.

So this also allowed us to get much more specific, and I'll come back to that when I talk about how we've than story tell around this as we as we actually go-to-market. This also gave us an opportunity to really think about the consumer from a holistic 24/7, 365 kind of an approach where it wasn't just about the activity it was actually also about in some cases when they compete but also when they recover. Now there's a big component to recovery when you think about people that exercise. I'm sure that's what some of you guys are thinking about here this morning, after you went to the gym earlier. And then of course the live component and that's a really big important thing to the two Frome or actually when you're not doing the activity. So that's kind of how we're now thinking about you know the lifecycle of this consumer that focused performer as we move into the future.
or actually when you're – when you're not doing the activity. So that's kind of how we're now thinking about you know the lifecycle of this consumer that the focused performer as we move into the – into the future. And when we looked at the market opportunity, what we saw was a very big opportunity with a long runway. When you think about the apparel and footwear market in total of about $1.8 trillion, you think about the athletic space of about $280 billion. The focus performer opportunity for our brand is about $92 billion. Now Kevin Eskridge, our Chief Product Officer will talk to you a little bit later on, how that translates into the different categories that we compete in. But that's a not a runway for a brand at $5 billion. So in other words, the decision for our brand is really to be focused around athletic performance because we believe that if we do that really well, we really focus on that focus performer, we're also going to create a halo in other consumer groups and ultimately we're going to win bigger. It's about alignment. It's about focus and that's where we're going to grow as we look into the future.

But we didn't stop there, we also wanted to understand, how this consumer moved through the consumer decision journey. And you're going to see some examples of this later on today when Jim Mollica, our Chief Consumer Engagement Officer takes you through you know how these consumers move when they – when they're considering entering into an activity. But what we found was some really amazing stuff. Now some of it is, is pretty obvious, but now the detail that we have found as we did this work was really interesting. First of all, social media matters, we all know that the social media matters. But actually when we look at our specific consumer, the focused performer one in three journeys actually begins on our Instagram. So in other words, if we're not coordinated, correlated into the Instagram social media platform, we're going to have a really hard time to make an impact as it relates to consideration for this consumer. Two, pure play is really important. Yes, we knew that, but we didn't know that actually one out of three searches starts either on Alibaba or Amazon and that was important for us to understand of course, but what was also fascinating, we also learned that most shopping happens offline especially in the western world. So for us as a brand it's really important to make sure that we understand them this full 360 degree view of the consumer in terms of when, where and how we should be interacting and delivering the right content at the right place at the right time. So it's a validation to some extent, but it's also helping format or tactics as we go deeper and deeper into this consumer.

And then really a big revelation for us was around the fact that men and women shop very similarly for the active use location. Not only do they shop very similarly they actually also think about the activity in a very similar way and that has helped them to form some of the decisions that were made as it relates to how we go to market as well.

All of these things that we did ultimately help format our corporate strategy and Kevin talked earlier about our four pillars of price story service team and now that we have this information around you know the space and the consumer, it became easier for us to really think through how that impacts our strategy.

And when you think about more of a detailed click down into our strategy of course starting with deep athlete insight is really important to us, but we're doing it now through the focus performance allowance and it's about solving their problems and inspiring them, it's clear. The story is also about bringing this product them to life but doing it in a way and in places where this consumer shows up and where we can have an opportunity to engage with them so that we can influence their consideration for our brand and then ultimately the service aspect of this making sure that we're creating a seamless experience through our go-to-market whenever however with whatever the consumer wants to interact with our brand. And the team, you know allowing our team to truly collaborate as a team through the go-to-market process, because ultimately what the go-to-market process does for you is it enables your teams to realty get their job done in the most efficient and effective way possible through collaboration, really important. And all of this of course is there to drive long-term brand right profitable growth for our company. So that's – that's – that's the key. So, when you look at the structure and the process, you know I talked about the engineering project of the go-to-market where we're aligning everything to make sure we're able to move through each season in a coordinated fashion. When it's actually more than that it's a structural alignment through the entire company with every single business unit. And I think that that's important to understand that Under Armour is now at that place where we're playing a coordinated play every season. We know what we're doing. We know where we're going. It's really important to understand.

I talked about the various funnels before and what you see behind me here is the go-to-market funnel and the innovation funnel. What's really exciting about this very simple – simplified slide is that it's easy to understand. You know we begin our innovation process and then we drive innovations through and when they get through a certain point, they're ready to be dropped into the commercial calendar that takes over and then commercializes them.

Our ability going into the future to do this in a repeated way, in a repeated fashion, time and time and time again, is going to be great. And one of the things you'll hear about today from Clay Dean is how this innovation funnel is actually stacked. So, we're very, very excited about that of course as we go into the future.
So all of this work and that we're still in – no I wouldn't say in the middle of anymore because we're actually mostly through creating the processes and working in side of them. But what Colin Browne will talk about today our Chief Supply Chain Officer is some really exciting stuff of what we already see. What we already see in terms of efficiencies, what we already see in terms of how we think about the consumer and the ability that we have to actually put that inside of the consumer in the beginning of the innovation funnel and also in the commercial funnel. The data inform decision making that starting to take shape at Under Armour we're reducing not just the gut which is pretty darn good in this company, but also some science to help inform the decision making process at every step of the way.

Reducing churn has been a result of this and as I said Colin will go into more depth. But I can tell you and we've been talking about this on our calls there's some incredible efficiencies that we're seeing already and it's not slowing us down. One of the things that I get asked to a lot is, well what about the creativity. What about your design teams. How do they feel about this, in taking 40%, 50 of skews out. I think our Chief Design Officer, Dave Dombrow said it best. He said discipline is freedom. My experience having had the opportunity to work with many different global brands is that if you actually give your designers a framework of how to think about produc, the season, the opportunity they actually do a better job. So if you also then take some skews out and you ask them to do more with less. That job ultimately becomes even more pleasurable for them and the outcome greatly enhanced.

The alignment

The alignment part here, it also creates greater alignment across the entire organization. It's incredibly powerful when this process is in play and you can see the alignment at every level in the company, everybody driving of course the same thing, incredibly important.

One of the outcomes here is also the validation in footwear that we've seen. You know footwear is one of our great opportunities, we're incredibly proud of the fact that we were able to breakthrough and running this year with our hover HOVR platform. You're going to see some amazing product that's going to come on the back of that as we turn the corner into 2019. But we're also now because we have more insights we have a process where we're looking back at that sell-throughs and are able to help inform how we think about the coming season. We're getting so much more validation real time that we're able to use than ever before and we're now able to execute on it in this new process as well.

And ultimately we talked about it before, it unlocks organizational time right. 17 months down from 22 months and we had line of sight through more time are the process if we need to we just don't feel that we need it right now. That's really important.

Next consumer centric storytelling. So I touched on this a little bit earlier, we didn't just do the consumer decision journey, we also as we now are tapping into and getting better and better I think you guys are going to be really fired up when you hear from Paul Fipps around all of the work we're doing to tie everything that's happening in our app world together with the brand to ultimately do what Kevin talked about to sell more shirts and shoes, how we're starting to understand what that also means as it relates to you know storytelling for us for this consumer. How we're connecting the dots in that full 360 degree view of how the consumer would like to interact and how they actually move through that journey on a daily basis, on a monthly basis, in terms of all of the contact points, all of the communication, all of the opportunities they have to touch the brand, or the actual activity and how we're learning what they're looking for every one of those touch points. What kind of content? What kind of frequency? What kind of product? The enormous data opportunity that we have here is incredible. What's different now is we have an ability to act on it. We have an ability to take that and make it actionable. And I think that is what is so exciting about our future, and this of course is kind of at the core of it. We're now able to take a story and tell it in the right way to a very focused consumer to allow us to get better inside a very specific space that where we want to win. So we're excited about that.

Now, next I want to talk a little bit about Marketplace Management and of course as we think about Marketplace Management the 17th month calendar does matter. But it's also a case of us becoming more profitable because of this kind of channel agnostic approach will take as we move into the out years because of our understanding of where the consumer would like to meet us and ultimately it's about what the consumer wants to do in terms of where they want to shop us and how they want to shop us, that's going to drive a lot of our decisions around where we should show up.

What we're doing though is we're making also very very specific and clear decisions around how we show up. In other words segmentation is at the core of everything that we do, very important to understand, right. So, you'll hear from Kevin Eskridge here a little bit later on like I said and you will see some of the products out there and you will have an opportunity to really feel that coming to live through the product this afternoon.

So we've done a lot. It's been a lot of work on this transformation journey that Kevin talked about earlier and I wanted to give you just a little bit more context in terms of how it has touched each one of our strategies. So in product, I talked about the demand centric growth, understanding the space and the opportunity inside of that space as it relates to the consumer, the focused performer that you'll hear a lot about today, the consumer decision journey understanding how the consumer is moving through this space and making decisions when they want to get into that activity and thinking through that consideration phase, the story around the marketing transformation being able to tell that story 360 degrees through all of the insight that we now have.

We've also layered on some pricing optimization here. So as we learn more, we're also understanding more of how to think about pricing, our product the correct way as we work through the marketplace and our segmentation strategies both from an initial pricing perspective, but also from a markdown perspective, really important. And then, service, go-to-market. It's about that end-to-end ability to be more predictable, more consistent and to have a methodology where you're able to learn and rejuvenate that process every time so you can – you're consistently getting smarter with everything that you do.

And then, we talk a little bit about ERP. Kevin mentioned it here earlier this morning. You won't hear so much about it today because right now it's working. I think, it's really important to understand though that it's a foundation and we're very proud of the fact that we did make the decision to do what's really difficult for most companies which is

put a whole new ERP platform in. We're now in implementation mode also in some of our other regions and we're very happy with how that's working. The team, the operating model you'll meet our regional leaders here later today and one thing that you should know is that we've also been working in the background, really strengthening our regional structure. Making sure that we're beefing up or APAC structure, our EMEA structure, our LATAM structure and also to some extent here in North America so that these regional leaders can truly drive the business into the categories and to challenge the distribution much, much deeper.

There's new leadership there. You'll meet some of our new leaders today. We feel they're really, really strong. They really know their stuff. And we're marching towards a truly global operating model as we turn the corner here into 2019 and we're very happy about that. And then of course ultimately smart spend. There was a saying here at Under Armour that Kevin started with way back that went something like make a $1 spend like $3. We're kind of back to that.

And we're doing it through zero-based budgeting, making sure that we're really thoughtful about how we spend our money. And Dave, will talk about some really exciting stuff in terms of how we're going to be measuring that as we go forward later on this afternoon.

So turning the corner then and looking forward beyond 2020, what should you expect to see from this great brand. Well, you're going to see a brand that's going to consumer-centric for sure. I think I made that clear to you today. But it's also a brand and a company that's strategically aligned and it's going to be balanced and what I mean by balanced is, we're going to make sure that we're thinking through how we go-to-market globally in every category and every channel of distribution as we move forward. Structurally sound.

We now have this global operating model

Structurally sound, we now have this global operating model that we feel is very powerful and very strong and we also think that our processes are now and we're going to be able to be much more predictive in terms of how we drive our business going forward. And we're doing that through better collaboration than ever before as a company.

And for you and for our shareholders that should mean that we should be able to deliver consistent financial performance going forward. So if we take a step back, we go back a little bit into what Kevin talked about, the work that we began to do a year and a half ago to really revisit that vision of making product that people don't know that they need and can't imagine living without.

The reason we wake up here at Under Armour every morning because Under Armour makes you better and the eight great values that we have of loving athletes, standing for equality, fighting on together, creating fearlessly, always connect, stay true, think beyond and we hope and we -- to a certain degree we know because we're more predictable now. We're going to celebrate a lot of wins too going forward.

That's the foundation of how we think about this. But then later on the fact that we're now in the human performance company that is for the focused performer that's determined to win in athletic performance. And this whole thing becomes really powerful when you then layer on an ability to operate really well [indiscernible] against this.

So as we move into the future here and we think about what's next for us as a company. We talked about the consumer. We talked about the innovation pipeline. We talked about the distribution and go-to-market and we talked about the structure, when we think about that the fine consumer the fact that we believe that what might be seen as a weakness for us right now in terms of not necessarily betting everything on the athleisure aspect. You need to know something that this focused performance that we're focused on for them like Kevin said our SPF formula is when we win, stall performance and fit. They for them stylish table takes, you can't show up today without looking, we cannot look good, some of you guys look good in the gym this morning with all that stuff that you bought in the store last night.

I also believe that this addressable market of $92 billion is real. We do believe it's real and we believe we have a lot of runway inside of that. We believe that by using data driven insights we can do a better job of driving that always on engagement that you saw in that circle of understanding all the touch points of the consumer. The innovation pipeline is stacked, stacked. And we've been able to realign and prioritize everything that's in there so that we can drop it seamlessly into the commercial calendar going forward in a systematic way. Really important as well.

And then of course this disciplined go-to-market, reducing the calendar by five months, the entire organization now operating within this new framework, a clear construct to make sure that we're driving productivity and holding ourselves accountable through the entire process is incredibly important, of course. And then ultimately you know when you get to the end of this you need to also understand that as we think about this discipline go-to-market it's been a real change for Under Armour real change for the entire team to be able to do this but everybody is onboard and we're all aligned. And ultimately our goal here is really truly to drive discipline operations within this go-to-market framework to deliver repeatable, scalable results and profitability to ultimately drive greater shareholder return.

Thank you.

<A>: Please welcome Chief Digital Officer, Paul Fipps.

Paul Fipps, Chief Technology & Digital Officer, Under Armour, Inc.

Okay. Good morning, everyone. I'm really excited to be with you here today because as a Chief Digital Officer I get to share with you a lot of the really cool and progressive work that the teams across the globe are doing. And I thought I would do that starting with our digital journey and maybe give you a sense of where we've come from, where we are today, and where we're heading to. And you know at Under Armour our mission is to make you better and our vision is to inspire you with performance solutions you never knew you needed and can't imagine living without. I know you've heard that from Kevin and from Patrick now, but I wanted to reiterate that point because we say performance solutions deliberately. And that's because we know that when you're trying to get better you need gear, but you also need the coaching, the community and the curated content to help you achieve your goals.

Now at Under Armour we're using digital to drive engaging experiences that help our focus performers get better and ultimately create Under Armour brand fans. And we say performance solutions again deliberately because it's part of our DNA. I mean 22 years ago we created the market for performance apparel. And three years ago we anticipated the needs of the consumer wanting to move into a fast paced digital landscape and we invested in digital fitness, mainstreaming this idea that through sleep, nutrition, activity, and fitness you can improve your life. And through the acquisitions of MyFitnessPal and Endomondo combined with MapMyFitness we created the world's largest digital health and fitness community.

Now our vision for these acquisitions was to build a community of people dedicated to achieving theirdigital health and fitness community.

Now our vision for these acquisitions was to build a community of people, dedicate it to achieving their goals and performing at their best. And then connect that community to the broader Under Armour brand with inspiring product, inspiring coaching, and inspiring content.

And we certainly chose a lead here, there was no President in the industry for what we were doing. And as the leader we had to learn and pivot quickly. And as Kevin said earlier Under Armour was the best at getting better. And so we learned a lot of lessons there, three of which I'd like to share with you. The first thing we learned is that community is critical. And the second thing we learned is that the direct app revenue streams can and should be an investment for broader Under Armour digital capabilities. And the third is that while data is powerful for insights, it's more powerful when it's used to drive experiences. So let's start with our community.

You know we're unique because in our community people are inviting us into their lives because we all make them better. And so you may not start off as an Under Armour brand fan. And that means we have to earn the right to your time and attention when we help you actually achieve your goals. Now since the acquisitions we know that's working because our entire digital community has grown by more than 65%. And as Kevin said earlier we now have more than 250 million people who have downloaded one of our apps. The most active of which log 2 million workouts and 30 million foods every single day. And what that means for us is that we get to engage with this community daily, building a deep relationship with that focused performer as we help them along their journey and meet their fitness goals. And we know that when you're part of this ecosystem people purchase 36% more than other shoppers and their brand preference for Under Armour increases significantly.
Under Armour increases significantly. Now the second thing we learned is that, the direct ad revenue from this community is actually an engine for investment across Under Armour. And so this year, we've focused and we've turned around our direct ad revenue streams driving profitability for this segment. More importantly, this new profitable revenue stream is funding Under Armour wide digital capabilities in engineering, analytics, machine learning, and digital product. But it's also allowing us to extend the reach of the Under Armour brand, we've targeted advertising on the Connected Fitness platform.

And in 2018, we'll be able to grow our premium subscription revenue by 56% year-over-year. And it's our premium subscriptions, our media, and our other [ph] ad revenue that will continue to fund this business, drive our development and allow us to attract some of the top technical talent in the world.

The third thing we learned is that, while data is powerful for insights, you heard Patrick talk about that, it's even more powerful when – when it can actually drive experiences. And so, we've evolved the insights into it and we built called single view the consumer by bringing more consumer and more enterprise data together and built an actionable powerful customer data platform that enables us to tailor content and create coaching algorithms that I'll talk about just a few minutes. Ultimately, it's the customer data platform that will allow us to personalize at scale and partnership with our marketing team mates, we will use the data with consent, combined with technology and analytics to get to know our consumers on a deep level and be part of their complete fitness journeys.

So today brings us to where we are today. Today, we're focused on building our digital health and fitness community, driving those engagement – engaging experiences as I've talked about and personalizing the commerce experience. To fuel this work, our digital organization now connects core e-commerce and consumer app experiences, personalization, content and social storytelling, all underpinned by a foundational capabilities in data technology and advanced analytics.
You heard Patrick and Kevin talk about the foundational capability in ERP with a fashion management solution across the globe. And what we're learning is that this enables agile teams to harness the speed the learning and the growth that will accelerate these immersive engaging performance experiences but ultimately designed to create Under Armour brand fans.

Now to do this, we're matching these capabilities to what we know about our focus performers. We know that they are hardwired to fight because they see barriers as obstacles to be overcome that they want to set goals and get better. They want to do all that at full speed. We see this every day among our users and our fitness community. So I'd like to introduce you to Paul. A dedicated focused performer, and a connected fitness success story. Take a look.

[Video Presentation]

Now, we'll hear more about our focused performer and how we are engaging with them from Jim Mollica and Arrieta Jake's in just a few moments. So, let's talk about how we are serving – serving this community of focused performers through our ecosystem of digital products. If you remember the wheel Patrick showed you around consumer engagement some of these products. I'm going to talk about are where we're actually engaging them at different touch points.The first is underaarmour.com, it's our digital flagship and our core e-commerce experience that's available on desktop and mobile around the world. The second is the Under Armour app, this is the pinnacle Under Armour shopping experience for our focus performers and we know that when someone has the Under Armour app they shop -- they shop with us twice as often as someone who doesn't and they have a 20% higher average order value.

MyFitnessPal the number one grossing health and fitness app in the Apple App Store. This growing community sets and achieves goals around nutrition and fitness MyFitnessPal users have logged over 9 billion foods this year but more impressively this group has burned more than 440 billion calories year-to-date.

Map my Run, this run experience allows you to map and track your runs and we use content and training plans to coach you along and make you faster, better and stronger and 01:17:47 Amando this fitness app has some of the same characteristics as Map my Run but it allows us to extend our reach abroad with one of the strongest digital fitness communities in Europe.

And of course social with over 54% growth in Instagram followers in the past 12 months Under Armour is always part of the conversation with the world's focus performers and we do that through content, influencer communities on Instagram, WeChat, Snap, YouTube, Facebook and other platforms.

Now such this ecosystem that helps our community manage their performance across fitness, nutrition and recovery and we do that again through coaching, curated content and community. A great example of our performance solutions is our connected shoe, built on our world-class hover platform and we launched a shoe this year in U.S. and China and are expanding it next year globally.

The launch of the connected shoe demonstrates the value and the power of merging our digital and physical product. Now, this product was actually developed based on insights from our own community. We found our community constantly asking how should I run? And using our expertise and run along with advanced analytics the Connected Shoe coaches focus performers into a better run form, with our innovation team in Portland, Austin and Baltimore we developed an advanced sensor and built it into shoes midsole. It's designed as seamlessly pair with Map My Run and provides personalized Gait Coaching, around your cadence and your stride length to get you into that better running form. Shoe doesn't need to be charge, and it provides more value for the price than many wearables in the market today.

Now runners who actually used the Connected Shoe improve their average running time by 5% over the course of five weeks. And runners who use the Gait Coaching feature log 75% more runs, and in this way the shoe and the app combined create this immersive experience which ultimately makes you better.

Now we are tying these experiences closely to digital commerce through our efforts and personalization. So you get what you need, when you need to reach your goals. To do this, we are meeting our consumers where they are, which is increasingly on their mobile app devices and on the Under Armour app. We're making it easier for our focus performers to get access to our gear by creating unique app experiences on Under Armour like outfitting which recommends personalized head to toe assortments, augmented reality like you see here behind me with our latest hover ColdGear Reactor launch where you can interactively experience of all aspects of the product, while learning about its features and benefits.

An ICON of best-in-class customization experience which many of you hopefully got to see at Harbor East last night, where you can upload your own images and design entirely your own shoeAnd ICON is just one example of how we're carrying these massive experiences into our retail stores.

Now, in addition, we've invested in deep omni-channel capabilities that enable both engaging and frictionless experience. So that no matter where our focus performer is on their journey, where they want to start or finish that journey that Patrick talked about, you can get access to our product.

Another innovative way that we connect focused performers with what they need is with our Armour Box subscription service which delivers professionally styled boxes based on your tastes and your frequency. This year we've shipped more than 60,000 Armour Boxes and people are buying Armour Box. We see higher average order value and lifetime value.

Now, as we move forward, we are focused on scaling those personal interactions I talked about. Elevating the commerce experience and growing recurring revenue and so, we're going to continue to leverage our investments in advanced technologies to create, test and scale those personalized experiences on our site, on our apps, in our content and at retail. And by doing this, we make our product and our story increasingly relevant to the focused performer and drive earned loyalty. A critical part of elevating our e-commerce experience will be our new underarmour.com redesign through which we will revamp our home for an elevated and personalized brand experience, create a seamless connection to our mobile and to our performance apps and build on the omni-channel capabilities we have launched. Take a look here.

01:22

22 [Video Presentation][Music]

Unverified Participant

And we're really excited about our new UnderArmour.com platform and elevating the experience for our focus performance.

Lastly as we move forward we will continue to drive diversified and recurring revenue streams and connect our growth and our premium subscriptions I talked about earlier with recurring opportunities in apparel and footwear. This continued profitable growth in our direct ad revenue streams will allow us to reinvest in the digitaland technological talent along with the capabilities that keep Under Armour on the cutting edge as technology trends in voice, artificial intelligence, embeddable devices, and augmented reality become the new table stakes.

Now you can see this reflected in our projected growth. During the Protect This House phase, we drove revenue in the high-teens primarily led by premium subscriptions, and this year we focused on bringing that connected fitness P&L to profitability.

During the perform at balance phase we focused on – we expect high single digit growth and as we continue to fund broader Under Armour capabilities across digital. And there are five year outlook we see a mid-teens margin in operating income allowing us to both fund those capabilities and deliver to the bottom line for Under Armour.

Our digital team's goal is to strengthen and deepen Under Armour's relationship with the focused performer. And we're doing this by creating these engaging performance solutions that are both digital and physical and that are powered by technology and data. Now the ability to do this requires the right team, the right investment, the right data, and the right approach. So what have we done to give you some reasons to believe the first we connected the teams. We've invested in and fully integrated our digital talent into a unique digital organization including our teams that are focused on digital product, e-commerce, consumer engagement, engineering analytics and enterprise technology. We are also driving meaningful value to Under Armour through the apps.

In 2018 we expect our connected fitness business to be slightly profitable and in 2019 we expect our apps to drive more than two times their direct revenue value in Halo through e-commerce, traffic, content, and connected products.We are leveraging the data. We've expanded our consumer insights engine with more data to fuel deep athlete insights and what the go-to-market process that Patrick talked about those insights are constantly fed back into that process. And we are executing personalized experiences at scale. We are playing an evolved defined game to a focus on fitness goals and journeys that truly make focus performer is better. We are activating digital to earn deep loyalty and create Under Armour brand fans and we think that's a unique differentiator.

Now throughout the day you're going to hear a lot about digital in every presentation in the categories, in the regions, in the breakouts and that's by design, because it reflects the deep strategy work and alignment that Kevin and Patrick both discussed earlier. I've been fortunate enough to be part of this brand for nearly five years, and I can tell you there's never been a better time to be part of this brand. Our digital teams are ready and set up to drive success for Under Armour. Thank you for your time today.

[Music] (01:27:44-01:27:55)

Unverified Participant

Now taking the stage, SVP Consumer Engagement Jim Mollica and VP Global Brand Manager, Attica Jaques.

Unverified Participant

Good morning. I'm Attica Jaques and I've been on the Under Armour team for two-and-a-half years. First starting in women's then going to regional and marketing and then now currently I am the Head of Brand Management leading both brand as well as category marketing. And in partnership with Jim we are leading the marketing strategy on how we engaged our focus performer.

Unverified Participant

Hi. I am Jim Mollica.

Jim Mollica, Head of Consumer Engagement, Under Armour, Inc.

Hi, I'm Jim Mollica, on the other half of this dual. I head up Consumer Engagement, which is really the bridge between our marketing discipline and our digital team, blending art, content with science, big data, guiding where, when and how we connect with our consumers.

So, before we move forward, we want to take a quick look back and acknowledge where we were and what we learned. Our tempo campaigns proved to be very successful formula for us for many years, where we were concentrated on broad awareness to a captive TV audience. But once the campaign launched, you waited weeks to see if it was working and you had little recourse if it wasn't.

Unidentified Participant

And in the past, we're reliant on single format creative through a single touch point like a traditional TV campaign. We underutilized our own channels across digital, social, connected fitness and retail. And ultimately we miss an opportunity to drive the convergence of both digital and physical experiences for our consumer.

Jim Mollica, Head of Consumer Engagement, Under Armour, Inc.

At Under Armour we have unbelievable instincts and for a long time, it worked really well, but it left too much up to chance. And when we did use data it was a very manual process which wasn't scalable across touch points or consumers.

Unidentified Participant

So, as we expanded across categories train, basketball, outdoor, run, golf, we also created completely different consumer profiles for each category. This caused confusion and inconsistency. But now, we've changed all of that and we are obsessing our consumer. So, I want to go just a little bit deeper into the insights around our focus performer and how we at Under Armour plan to engage, inspire, convert and ultimately earn their loyalty.

convert and ultimately earn their loyalty. So as Patrik showed earlier this morning we went through exhaustive quantitative research with over 22,000 consumers around the world. And while what we understood is that there is a demand space that can be uniquely ours to own. So while there are broad demographically when it comes to psychographic we have a shared mindset. They are not just for everyone nor are they simply creators. They are athletes, they are hard wired to fight and they see barriers as obstacles and they also represent a $92 billion market opportunity for us. So ultimately they're looking for brands that help them on their journey and we can do that. We can help them be better and give them the edge.

So as you can also see they're younger and they're more diverse. They're more active and they spend more than the average consumer. We also found out from them that when they see obstacles and they have naysayers where many would retreat they actually go harder and then train they compete with themselves and their peers to benchmark their progress in the absence of a coach or a team. And they also find strength in community and they only care about performance apparel when they can notice a difference like a performance fabric our speed pocket which protects their phone while they're working out and style is also a very big part of this. And it's not just about looking good. It's about feeling the part because that's what gives him confidence to perform even better. And being an athlete it's fundamentally connected to their mood, mental health, and self-identity and they are also demanding body positivity from brands. I'm excited to announce that we'll be offering inclusive sizing in 2019 a huge market opportunity for us.

So we've talked a little bit about the data behind our focus performer. We've also talked about what inspires and motivates them.

Now let's hear directly from them.

So now that we know our consumer a little bit better, let's talk a little bit about some of the opportunity that we have and specific to our brand metrics.
Let's talk a little bit about some of the opportunity that we have in specific to our brand metrics. We know that in North America we're incredibly strong when it comes to brand awareness and as we look for international markets and for growth we're also strong specifically in China seeing a 2016 to 2017, 25% growth. But when we look at international in total we still have a lot of room to grow. We also know that we have an opportunity to become their first choice and to also increase purchase intent. We felt positive that with this type of clarity around who our focus performer is, understanding what drives them that we're truly on the right path.

So let's talk a little bit about where we were and where we're going. So we went from divergent consumer segments to a single focused view of the consumer. We went from fragmented spend to focus and consistency across creative and investments and we went from tent pole moments to always on consumer engagements.

We've had some great success when we look about 2018 specifically Hover, where we've already had over 5 billion impressions to-date. We've also activated a 100,000 pairs of our connected fitness platforms. This allows us to track, coach, build community and ultimately create a stronger loyalty with those focused performers.

And most recently in our fall campaign we started applying this new strategy and what we found out is that it's working. We saw an increase in engagement, an increase in consideration and an increase in conversion. So as we look forward to the upcoming 2019 year it will be the first time that we'll be able to impact our consumer experience all the way from strategic development to creative development and ultimately execution.

Be clear, we are clear, we are
focused and we are driven to win. So now I'd like to bring Jim back out to talk a little bit more about our plan for consumer engagement.

Unverified Participant

Thank you Attica. So we can't really talk about marketing without discussing the landscape that we're competing in. How to create, how to distribute, how to engage has all fundamentally changed. This is a scroll and swipe generation. They live life in the feed with a never ending torrent of content. Ad avoidance is becoming an ingrained consumer behavior. Brands they're competing for time and attention with publishers, celebrities, their friends and yes, even kittens. Today attention spans are measured in seconds and it's commonplace to interact with multiple screens at the same time. And because of all of this consumers dictate the terms of their interactions. So now our challenge, the challenge is creating engagement with the consumer and that has become the metric for success in this digital world that we live in.

So how do we maximize our engagement? Well, our first step had to be organizing around that consumer. Today, the only way to meet their expectations is to personalize their interactions across all connection points. However, in order to do that consistently and do it at scale we had to create a foundation that would enable these interactions. So first, we had to enhance all of our data. We had a lot of it but we needed to connect it, combine these disparate data sources from Under Armour sites and stores from Connected Fitness to customer service and social media, all of this to create a broader behavioral and physiographic profile because combining people's behaviors and attitudes gives us the more predictive engine and demographics alone.

Next, we had to refine our marketing technology stake to truly unlock data's true potential, we need to put it in the hands of our people, employing a customer data platform allows our teams to drive incise and actions at scale through machine learning and AI. And finally, we had to be able to distribute personalized content. Armed with intelligence and the ability to deliver the content at the right time, we increase the probability that the consumer will engage with us.

So as a result, our communication continuum has changed. Now data and technology fuels our insights, personalized experiences placed in appropriate and right context feels our engagement, and engagement ultimately leads to greater revenue.

However, this data informed approach requires a shift, a shift in the skill sets we develop, the processes we employ and the way that we are organized. So, as a result, we structured our ways of working around speed, learning and growth.

So there are three components of this data and formed engine that we have. First, the customer data platform, it empowers our teammates with a level of intelligence they've never had before. Next, our return on marketing investment and predictive modeling tools ensures that our investments are optimized across the board And finally, the digital marketing accelerator, a cross-functional agile team they quickly test hypotheses and validates our insights. So this foundation. It's given us the ability to test new engagement models on a daily basis and those models can validate the most productive audiences the most productive media and the most productive creative.

Now as Patrick mentioned earlier, we conducted research detailing the consumer decision journey. There were many revelations, but one of the most significant was that the consumer journey is no longer linear. Instead it more closely resembles a flight of a bumblebee with people moving seamlessly across channels over condensed few day period. Further work from our digital marketing accelerator yielded frequency, drives purchase intent and because of these things it led us to pivot our approach to engage more consistently, shifting to an always on model.

So let's take a look at how we apply this approach in a couple of our key channels. As you know time spent on social platforms for our key targets absolutely enormous. The focus performer consumes entertainment, news, connects with friends plays games shops so with all these options how does Under Armour stop them in the scroll.

We've found that four things have significantly increased our performance. First, we segment the audience to deliver the most compelling content target individuals. Not all followers. Next we produce platform intentional content, create for that use

don't repurpose from other environments, scale our reach and frequency to the most productive audiences. More exposure, leads to greater impact and validate our products through influencers and publishers who have the authority with the followers. So following this approach and using diverse engagement formats like you see here, social content series on YouTube, on Instagram TV, shoppable interactive experiences and mobile gaming.

Consumers have responded by engaging with us 93% more on these social platforms than the year before. Another key channel for us is our connected fitness community, MyFitnessPal, MapMyFitness gives us access to millions of focused performers daily. It is our own walled garden. The content, the tools the products they're all designed to make you better providing motivation, education, competition and recognition.

It earns Under Armour the right to be a part of the focused performers daily life. The video you see behind me, the clips that Paul showed earlier, they highlight some of our video series. Series like Ask The (sic) [A] Trainer or Food Smash these series have been viewed over a 130 million times organically just this year alone. Proving that there is a massive, massive appetite for Under Armour to provide this kind of advice and guidance and by helping people reach their goals that builds brand love, making our community one of our top marketing attribution channels. So moving forward our

So moving forward, our efforts are focused on creating engagement through personalized experiences. Using data to inform our content and where we engage, and empowering our agile teams to learn very, very quickly, and scale those successes.

So, to wrap this up, why will this work? Well, we've aligned around a common target. As Arika mentioned, Patrick mentioned, the focus performer, we're transitioning from these big tent pole campaigns to always on engagement. Our holistic approach earns us the right to engage with our consumer 24/7. We've made investments and build a MarTech platform that allows us to turn data into action and results, and we're shifting our investments to social and personalization to drive our growth.

And finally, we have agile teams that will drive speed and learning. I appreciate the time. Thank you very much.

Unverified Participant

We will now take a short break. Under Armour Investor Day 2018 will resume 15 minutes.

[Break] (01:45:40-01:46:14)[Break] [Break] [Break][Break] [Break]Please welcome Chief Innovation Officer, Clay Dean.

Clay Dean, Chief Innovation Officer, Under Armour, Inc.

Good morning, everybody. How're we doing so far, good? Awesome. Great. It's great to be with you for a few minutes to speak about one of my most favourite topics of all which is innovation surprisingly. I spend a good part of my career in the advanced, in the concept space and it's one of the places that truly, truly excites and gets me excited all the time, because we're working on things that haven't been identified yet.

Working in the unknown and continuing to develop new great products. So it's an exciting – it's exciting subject to be with and to be here at Under Armour right now doing innovation couldn't have any equal.

Before I jump into my remarks, I wanted to make sure that you understand what is really innovations role here at Under Armour because it's good to clarify and get going forward. And so when we look at the whole story why is innovation around, the innovation exists to look ahead to scout for newness, to inform the brand of future opportunities. It's our job to test, to prove, to validate, to make athletes better and to take these and validate -- and to take these projects forward and commercialize and scale them.

Our role is to be explorers. Our role is to actually create paths, to create maps and to make sure that we can take the rest of our company into some great fertile ground and opportunities. It's an exciting role to be a part of.

All right. So we've been busy over the last several months and I think as we've seen the path today we're talking about where we've been, what we've been working on as we've been growing getting big fast.

And I think since joining Under Armour I've been able to spend a lot of time to really look at how the innovationmachine working, what are our strengths, what are our successes. And I think, over the past few years, we've done some pretty amazing things. I think, there has been some great products that have emerged and some great activities, but what we saw perhaps is some of those things we weren't consistent because we wanted to understand why? Why weren't we constantly bringing great product to bear. And I think, one of the things that emerged very quickly for us, is that we saw that we really didn't have a lot of great repeatable processes. So we could do great things here and there, but a lot of that was really forced more by will and by opportunity and some of that repeating process, I think had to do with consensus variable goals and priorities where we were at.

The other side is I think that – that shifts and that kind of confuses things. The other side we had to struggle with in terms of variable lack of insights. Sometimes we had insights, sometimes we didn't, sometimes we had the insights and didn't use them.

Next, we had a real irregular hand-off to how we were working. I think one of the great strengths and the goals of every innovation team is to get your work adopted into the in-line. We had a sub optimal rate of adoption and when we asked the question why was that happening? We wanted to make sure we understood what was working and not working. Some of it was we didn't know when to put our pencils down. Sometimes we were working around activities that we didn't really create complete concepts. I think we were very ingredient focused and sometimes ingredients can be great, sometimes they can be bad. But, the real value of innovation is to create complete concepts and with complete concepts, you get people excited. They can see what a story is about. They can be engaged. They can see what the technology is going to do for them and that really helps to engage in the pool that we work in. we were working on the ingredient side. And so, all of our great compelling technical stories were getting lost and as a consequence our messaging what the innovation team is pushing forward is perhaps not as strong as it could be.
what the innovation is pushing forward is perhaps not as strong as it could be. So with all this information it allowed us to really refocus, prioritize and get to work in terms of how do we actually be stronger, build on the foundation that is already here. So the first thing we did that Patrick referred to is we established an aggressive repeatable phase gate process. Now I'll spend time talking about that little bit later. And along with that phase gate we wanted to make sure that that gate or that degree of work was aligned very closely with our go-to-market strategy, we needed to make sure we had an outlet for all the activities that we were doing. And the next thing we want to

do is to address that concept issue of ingredient focus. So we spend a lot of time building our sense of design capabilities and engineering capabilities. We want to create phenomenal concepts.

Secondly as we move forward we wanted to double down on the focused performer as everybody who is mentioned here today and you heard on all the folks who spoken today we have a target focused performer and we're going to learn how to train our sights on them and learn how to serve them the best way we possibly can. And along with that focused performer we have very clear priorities and strategies that are put in place. We know where we're supposed to work and the areas we're supposed to spend our time on. And we're utilizing consumers and athletes in ways we never used before in terms of testing and validating the work that we're doing.

And next as we look at all of the technology platforms we are working on, we're not looking them as one hit wonders. We're looking at them as long-term growth franchises. How do we set up these innovation technologies we're bringing to bear and more importantly how do we make sure they have a long train run of work. So we're looking at lifecycle management, we're working very closely with Kevin Eskridge and the product team to make sure that we can align on that where we introduce and how do we expand and extend.

And the other thing we're trying to spend our time on really important is work on consumer valued innovation, non-innovation for innovation sake that things that consumers really care about things that are focused performers are hunting for and that really requires a sense of effort and study. And that's where insights and our data and analytics will help us understand with those are want to be.

All right. Before we jump into the rest of this I think it's important to kind of talk about ways that we can innovate because innovation is a heavily used word today in the market place today and everybody uses innovation in different ways and I want you to see how we look at innovation at Under Armour.

So first we have revolutionary innovation original, new and disruptive developments that change how the world works and disrupt an industry or segment of work. This is where Under Armour has born as Kevin shared with you in his remarks initially this was the very start of our work with the #0037 shirt.

As he shared with his images in football, he's 37 with his football uniform. You're here today and building 37, 37 is an iconic number for us and the first product was #0037 shirt, a concept born out of empathetic understanding of what it took, what the problem was and the complete -- that there had to be a better way to manage heat and sweat management on the body.

UA revolutionized the category of sport and establish the DNA of the company. But that wasn't it. Along with that as we continue to move forward we continue to do that same work in other categories of business ColdGear and HeatGear and compression. So the highlight cleat, the re-imagined how football was being played on the field and then moved on to what we did with NFL Combine and our 37 Connected Fitness shirt to Connected Shirt that really formed the foundation of our Connected Fitness and Connected Athlete business that we see manifested today with the Hover shoe and the Connected Shoe and our MapMyRun app and leading right into our recovery sleepwear, looking at a whole new segment of how we actually participate in sport and bringing revolution to that.

And so you'll see the next extension of that story a little bit later today in your walks. So, revolutionary innovation it's the DNA of Under Armour and continues to power us and continues to inspire us where we want to go next. The next type of innovation is evolutionary innovation and it's an activity that builds upon existing ideas of platforms, and technologies and optimize them and renews them from season-to-season, this is where great franchises get born. And a great example of one of the things that we've done in the past has been our ColdGear introduced in 1997 and continues to get refashioned and renewed and brought forward year to year to year and today you will see the latest version of that is Coldgear Reactor. So we know that evolutionary innovation is a key part of what we need to do on a yearly basis.

The next version of innovation is something that worthy may not be familiar with, which is [indiscernible] innovation. And it's not new, it's been around for probably hundreds of years and this is really taking existing tools, services and solutions and really applying them in a new space in a newer novel way which brings innovation. I think probably the best example we have of this is around our hover cushioning platform. Those of you who don't know we have a phenomenal partner in Dow Chemical, Dow is just awesome collaboration partner with us in materials, in apparel and footwear. And they had developed and infused all olefin co-block polymer, pretty amazing is a mouthful of words to say. But this technology was really managed to be our – imagined to be a part of automotive, industrial goods, plastics, adhesives something to really allow plastic components to have flexibility in cold weather but when applied with a lot of other ingredients just happens to make an amazing foam with phenomenal cushioning properties, and energy return.

We need to look at other industries and other developments to see how they can impact where we are help us move forward. So, three types of innovation Revolutionary, evolutionary and orthographical – orthogonal. Excuse me. That's where we focus our time and power as a company going forward.

Now, you can have lots of processes in place but the route of any great organization is going to be the team and the team – team drives us where we go. And I want to just briefly touch on how we've organized the innovation team to do the work we're doing. We start with human performance, this is where our observations and relationships with focused performers and athletes really begins to grow. And everything is highlighted here in bright red. Is really where we kind of put more effort in our reorganization of the work that we're doing. We want to make sure that, at the end of our funnel of work we're creating proven and tested components. So, we wanted to make sure that we can look at everything from a performance point of view. Much of the work we're working on in the innovation team is focused on pinnacle, hyper performance activities. That's where we want to establish our point of view. How do we become great with super high performance work. So, we've really doubled down on product performance testing.

Secondly, we have an open innovation team. The open innovation team is really our – our group that keeps a finger on the pulse of what's happening in the world of startups, incubators, accelerators and continuing to build relationships with outside companies. Our whole recovery sleepwear is really one of those developments that really is brought forward into the company through open innovation team.

We have a phenomenal materials team that works forward and it is run by just some mad scientists of fiber and material development. And it's really one of the core strengths and really highlights of the company. We have doubled down back to this point of view of investing in concept and design within that group on the Innovation design team. We spend a lot of time to put a focus on footwear design, digital design tools because as Patrick talked about with the go-to-market program and shrinking where we're going, we're going to need to rely on new tools of design, digital design will help usmove faster, smarter, share ideas quicker and that linked along with 3D printing and other types of digital 3D development helps us to really develop our future concepts in a more focused and strategic manner.

We've also created a special projects team that allows us to really dive deep into some special activities and some of the outcomes of those special projects will actually feed the innovation engine in some other ways and we're in the process now of developing and building a whole apparel design innovation team and this apparel design innovation team will take a lot of these phenomenal materials that we're doing already and look at them as completed assemblies, how do we construct these type of apparel and more importantly how do we hunt for white space in the industry and develop things that have not been created before in the sports apparel side of the business.

The other side if we can keep -- keeping on back the other side we've actually spent a lot of time developing is footwear development. And I think we want to truly plant our flag on high performance footwear and so we've invested here aggressively in our footwear engineering teams with finite element analysis with engineering simulation activities and also our digital design tools and prototyping.

We want to excel in footwear performance and so we need to build that strong muscle and capability, it's a super talented team. And lastly we have a Connected Fitness team and this is where we work very closely with Paul and his organization with the teams in Austin and in San Francisco to really focus on sensor development, validating those systems that really work, continue to work on strategy and insights and then support all of the activity that's happening around software development and app development.

So it's a small robust aggressive team and they've -- they're heavily involved in Connected Footwear and working forward and in Connected Apparel moving forward. Overall the innovation team is talented, it's focused, scrappy and dedicated to the cause. Now you saw Patrick referenced this slide which is really around our funnel of how we do our workThe key thing to remember after this and really takeaway is that all of our work really runs in that constant humm of activities. We have, seasonless. We don't work through the fall, spring, summer or fall. We are constantly humming all the time with our outcome of bringing concepts and material, almost the bomb that we can put on the shelf ready for in-line partners to use at any one time. Proven and tested, we know that they work. We know there is a commercialized strategy behind it, but let me break it down for you just a little bit to kind of show you how it works.

So off to the left. We have inputs. This is where we have lots of insights to come in and anybody who is familiar with a traditional product development phase gaze cycle, we will see reference in this [indiscernible] what it means. We've tuned it for us and we're not getting into the details. But, we have lots of inputs. This could be category inputs, partner inputs, ideas from design, ideas from Kevin, from Patrick. Anybody can have an input that actually comes in. But, then we walk it through its first filter and this filter happens to be all of our corporate and strategic priorities. Where do we want to play? Where are the areas that we really need to double down and do our work? If we can have some great ideas and come forward, but they don't pass this filter, we're probably not going to spend a lot of time initially on it.

Then, what we've done in the rest of the funnels, we created a stage gate which essentially – there's phases of work that are chunked out all through and each one of these phases, there are certain types of activities that are happening. Defining the problems, ideating, developing, sketching, designing, and each one of these phases to move from one phase to the next, there's a gate and these gates require you to pass certain requirements in order to move forward. These phases don't have a set time. They could happen in two weeks, six months or three years. But, what happens – what has to happen is at these gates certain work gets done.

And that work and these gates define our work innovation, concept work, design work everything moving forward with a target. Which is the focus performer? What are their

needs.

As Patrick mentioned earlier before, he says discipline drives focus or essentially it drives freedom, what we can do is take a lot of ideas that can funneled through, it could be hundreds of inputs and ideas and as we funnel them down validate them identify what's the most important with a little bit of a flair and a focus mentality.

At the end of the day we end up with a bunch of components that allows our design partners to really flair to do more work. So for instance, one cushioning platform could serve seven or eight or nine different sports categories, one material platform to do 20 or 30 different things. We take the guest work out of it and we focused on with proven [indiscernible] components at the end of the day that are aligned to the go-to-market plan. It's a robust strategy that is proven to work as long as we utilize it and our focus is – our plan is to utilize it.

All of our work that we do that funnels into our activities starts with understanding the athlete, the core needs and we spend a tremendous amount of time working with our athletes, with focus performers, collegiate athletes, pro athletes and to really understand what do they want? What do they need? What are we doing, that's really great that we need to build upon. And as we do this we gain tremendous amounts of understanding and awareness of what to work with.

And as we take the projects that come out of this work we then are taken forward and are testing them the solutions that we have along the journey. We're testing them with athletes, collegiate athletes, multiple genders and multiple regions of the world. We have over 10,000 testing partners that are situated all around the world in footwear and apparel and multiple sports categories that we can test summer, winter, fall, spring to get an insight of where we're going.

And what we're doing this work to validate this performance, we're moving forward and we're actually validating with consumers. We're making sure that we're creating projects and concepts that surprise and delight that shock and awe them and we can take those insights back and then make sure we're on the right track. They don't tell us what to do to, they help us understand if we're on the right journey of creating great product. If we do all of this successfully what we end up with is we build long-term long lasting franchises that really build brand going forward.

All right, so with all of that I'd read the moment, what's next. Well we couldn't take all of you walk over into our innovation labs and show you what we're doing. That wouldn't be too smart. But what we could do is maybe take a peek behind the curtain for just a moment and give you a little bit of a look of some – couple of three projects that we are working on that have us really excited and that are not too far away from coming to marketplace.

So first, imagine insulation has warmth of down with the performance of synthetics, light breathable, fast-drying, inspired from the viewpoint of sustainability and recycling them both down and other synthetic fibers that really results inspire and – it really results in a super UA Under Armour exclusive process and material structure that we believe what we know creates our warmest most personal insulation we've ever created. We believe that it will be a significant development in our outerware developments going forward.

Next what about a material that is engineered to take the shape of anything that it wraps around that can be utilized in both footwear and apparel, a complete custom fit right off the shelf. Go form into your foot and body's every movement support where you need it. Comfort where you want it, flexibility where you expected. The ultimate in adaptive fit comfort and support. It's almost a clone like fit for your body.

Next we have a concept for shoes that has with no compromises, hyper-light, ultra-cushioned with segment-leading energy return and superior all-weather traction, in dry, in wet, in indoor and outdoor and all of these attributes are integrated into one simple midsole component. It will be our lightest ever and fastest ever footwear story.

And last, let's rethink how a shoe is made, when we think of providing 360 degrees of containment enabling strength, stability and structure, manufactured in seconds, not minutes, as an average of 9% lighter than our traditional knits, that is 2.5 times stronger and burst strength than traditional footwear materials, which leads to what we think will be a revolution in footwear. We have some exciting projects that are underway and in the innovation house we're pretty motivated at what these things will lead to. And if you're intrigued by this last concept pay attention to your walks around the building because you'll see a couple of stories and how this manifests itself into the real world into footwear.

All right. In all of these platforms I just shared with you as we talked about looking at long-term applications we're making sure that we're planning when they launch and how they launch and in what sport we're going to be launching them into that really allows us to really talk about the benefits and the technology stories. And we know where the second generation of these stories are going to be launching and when in what sport and we know the third and the fourth and the fifth areas where they're going to launch and along with that we know how we're going to keep refreshing and keeping that technology new along the way. This is evolutionary innovation in play planning it from the very beginning and building long-term franchises.

All right. To wrap up. So why should we believe we're on course? Well, I think number one, we've got a solid repeatable phase gate process is going to keep us on track. We've aligned all of that work with the go-to-market process and we know
how we need to serve and deliver to that. We're fully – fully utilizing digital design tools in our design engineering side and we've robustly rebuilt and added to our design capabilities in concept work and working and designing in the full concepts.

Secondly, complete full focus on the focused performer for us and we have a very clear mindset of what our priorities are for the company where we need to spend our time. Categories need to grow and we know where we need to be playing. We're working closely with consumers. We're testing and validating with athletes and the focused performer. We're creating a long-term innovation of franchises with a life cycle plan where we want to go next.

And along with that, we've got as – we've heard consistently from Patrick and through K. P., we have a rich, rich, full pipeline of innovations just stacked up ready to move forward. At the same time we have that working. We're constantly renewing and bringing forward new concepts and new problems to solve. Overall, we have our goal which is really to create a pipeline of performance solutions that you never knew you needed. But once you have you never can live without and then lastly, if that's not enough to keep us motivated and driving forward in innovation house, there is that other concept that K. P. talked about in, we've yet to make our defining product. As an innovator and as a creator, this is what drives you. It constantly be searching for what is next and what is new, what will transform the world.

With that, I thank you for your time. I look forward to talking with you later today. Take care.
[Music]

Colin Browne, Chief Supply Chain Officer, Under Armour, Inc.

Good morning, and welcome to Baltimore. I'm Colin Browne, the Chief Supply Chain Officer for Under Armour. I want to talk to you today about Brexit, no, I don't. I'm the resident Bray, so I can't just had to throw that in there, but interesting to see how it plays out there. I've been with Under Armour a couple of years, I've been in this role for about 18 months, but I spent kind of 30 years in supply chain in various different parts of the world during this kind of stuff, and I should just tell you that, I'm probably more excited than I've been ever been in my career with regards to transformation that I've been driving through this company. It's an amazing opportunity and we're at the beginning of a really about above a half way through a really interesting journey.

Kevin talked earlier about kind of how we're looking at this in three different phases, kind of where we were, where we are and where we're going. And I kind of want to kick this off by talking a little bit about the rearview mirror and where we were. Kevin talked about the process that we went through called getting big fast, okay. And that's an interesting time for supply chain because we really have to think about how we manage that entire process because when you're really getting big fast, you're really chasing capacity. Our unit growth was kind of tripling, the number of pairs we had to reduce the number of units we had produce was going through the roof, and in order to kind of maintain and manage that capacity, we needed to continue to add vendors, add countries, add locations through which we produce products. It was a really inefficient process for which – through which we could manage the entire way and in which we were thinking about our business.

In addition to that, in order to maintain that level of growth and just basically chasing, there was a huge amount to SKU proliferation. I think in 2017, we were at our highest number of SKUs across the entire organization and that really wasn't a very efficient way to operate. In addition, the way in which we were structured internally was very much in the siloed kind of model. We had a very siloed kind of process through which we thought about managing the process.
was very much in the siloed kind of model. We had a very siloed kind of process through which we thought about managing the process. And it wasn't particularly well orchestrated or managed from the point of view of how it kind of flowed through the entire process.

And I always think of supply chain and in fact somebody said that supply chain is kind of the conscience of an organization. If your organization is well structured, well organized then supply chain really has the opportunity to leverage and really kind of to deliver and the work that Patrick and Kevin spoke about earlier the go-to-market process is kind of getting us to that place, so that we no longer going through this proliferation in the way in which we're growing the business.

We also needed to continue to add infrastructure and distribution centers in order to manage that. Kevin talked about the fact that we were adding a new distribution center every other year and that required a huge amount of investment from the point of view of how we're running the business and to a large degree that kind of ran ahead of us from the point of view of what we were investing in.

So it's a very interesting time and a very -- a very crazy just kind of running to kind of try and keep up. And that manifested itself in the way our sourcing strategy was evolved. Back in 2013 46%, 46% of what we sourced came from China. Now as you can imagine in the current geopolitical environment if we were sitting here today and saying I was buying 46% of what we sourced from China we would be in a pretty horrible position. But over the past couple of years we've really kind of focused on that and we brought that number to 2018 to around about 18%.

But I do want to call out that 18% is for everything that we source globally not just for the stuff that we bring into the U.S. the stuff that we bring into the U.S. less than 10% of what we bring into the U.S. for this year will come from China. And we're optimistic that we're going to continue to drive that down for next year.

So over the past couple of years we've really invested in trying to bring a balance to our sourcing strategy and that's kind of manifested itself in the way in which our sourcing structures can't delay that. But I do just want to walk you through and help you understand just how complicated and how broad our supply chain is and was. We produced approximately 270 million units a year, and it's worth remembering that 270 million units is complicated stuff. We don't make simple just simple T-shirts, we make complicated footwear, we make performance athletic products, and it requires a very different way in which we think about developing that. We produced around about 415,000 SKUs within our own internal supply chain and we were managing that through 26 different source countries all around the world from Asia to Latin America and so the Middle East.

In addition, we were working with the 151 different factories, Kevin talked to you earlier in the presentation about 46 manufacturers, and from a manufacturing point of view that's true 46 partners, but we were in about 151 factories for our own internal supply chain, spread across that many different countries, spread across that many different SKUs and that many different units. It's a pretty complicated supply chain.

In order to service that, we had seven different sourcing offices that spread out throughout the world and through various different countries through which we were sourcing products. And then in order to manage the distribution and logistics of that entire process we had 18 different distribution and logistics centers between the U.S., between Asia, Latin America and Europe. So again we had a fairly broad process, and overall across the entire supply chain we had around about 2,500 people. So it's a big complicated model, and it required – as I said it required a lot of effort to basically keep up with the way in which the organization was growing between 2013 and 2016.

And that's especially true when you think of the geopolitical climate we're dealing with today. And so one of the things that we've done over the past couple of years is really think through what are the prioritize, what are the priorities for a supply chain. And we came up with eight different things that we felt was important. The first one was product and Kevin talks about product service story team. Understanding that product has to be the number one is something that from a supply chain point of view we need to keep front and center. The second is service again, product service story team really thinking about how do we ensuring that we're building and putting in place a supply chain strategies that allows us to deliver the service to our customers that we expect.

[indiscernible] talked about the opportunities around lead time and really focusing on how do we get closer to our consumer by reducing the time within supply chain in order to unlock that was again a big focus for us over the past few months.

We also know just how complicated the current tariff and global trade wars – global trade situation can potentially be and so, understanding and thinking about how do we derisk our supply chain but also manage the tariffs and the duty challenges that exist something we've spent a lot of time thinking about.

We also realized that as we were going through the get big fast model, we were really just running to keep up. And we believe now as we are thinking through this there is an opportunity to amplify margins to think about how we managing our process and how we managing our margin. So it's been front and center of how we put together the supply change strategy.

We also believe that thinking through how we're running a much more choreograph play gives us an opportunity to think about how we manage inventory differently and really thinking about how do we put in place processes and systems that really unlock the opportunity that exists in managing inventory differently. We also have a sustainability ambition

it's not something we talk a lot about here at Under Armour but it's something which we're really pretty -- really passionate about in the way in which we engage with -- engage with our factories and the way in which we build product to make sure that we're thinking about how that exists with the whole corporate social responsibility, sustainability part of the business.

And finally and certainly last but not least is engagement, when we have 2,500 people across the entire supply chain globally, it's really important that they're all facing in the same direction and all moving in the – to the same kind of vision and the same kind of strategy. So when we kind of distilled those we came back with three core strategies which we've been working on between 2017 and 2019.

The first one was making great product and it was really about how do we manage skew rationalization, how do we Kevin -- Patrick talked about how do we really focus the number of skews that we have within our organization. And we had a really long tail of skews, really a long tail of stuff that we were trying to build that was not allowing us really to focus in the way in which we could really execute.

In addition, we really wanted to focus on reducing complexity within our supply chain. How do we make it a little simpler. Patrick talks about the verb to simplicate, meaning how do you make things more straightforward, more easier, so people can understand it. And from a supply chain point of view that more simple you can be, the more efficient you can be. So how do we simplify that of – the entire process.

How do we also really lean into margins and how do we make sure that we're building the right quality of product. The second strategy we lent into was supply chain excellence, which is really trying to establish deep symbiotic relationships with the best partners, the best factories in the industry so that we're connected with the right people and we're insuring we're getting the right level of service from those vendors.

We also have been working through how we think about our sustainability reporting. And also as we talk about
We also have been working through how we think about our sustainability reporting, and also as we talk about duties and tariffs, how do we optimize risk and how do we manage that process to really take advantage of the opportunities that exist in tariffs but also derisk our supply chain from the point of view of the potential implications of the next treat.

And finally and last but not least, how do we really think about operating in this global operating model that Patrik talked to you earlier. Now thinking about how does supply chain and how does our sourcing offices exist within this global kind of model that we're putting in place, and how do we think about servicing those local markets that are coming on board as we think about growing our business China and other parts of the world as well.
And finally, I'm thinking about distribution and optimization. If we're going to work in this new go-to-market calendar, how do we focus on lead time reduction? How do we really make sure that we're driving improvements and our inventory and how do we make sure that we're building a model which allows us to really drive service.

So how are we doing, so begin there? First of all, I can tell you that our total SKU counts have come down over 40%. Again that reduction in SKUs is really allowing us to focus, focus in a much more meaningful way than we've been able to before. So allowing us to really focus on building great products, but it's also allowing us from a supply chain point of view and from a sourcing point of view to have different conversations with vendors, and really have conversations about how do we make sure that we're getting the best prices, because we're driving much more value for a much smaller list of SKUs.

One of the ways we've also linked-in and showed we're doing that is by reducing the number of materials we have in our palette. And when we kick this off a couple of years, ago 18 months ago, we had about 6,000 materials in our palette. But we recognized that that was again and that proliferation was not allowing us to really drive value in the way in which we were developing and producing product.
That doesn't mean that we limit our designers from the point of view of what they produce, but it really means we are much more focused in the way in which the materials we allow them to use and how those materials show up in a coordinated way across the entire product line. And that's those two things together have really allowed us to drive margin. And I think you're starting to see the results in Q3 this year. And it's really something that we can see that there's an opportunity for us to really continue to drive that very differently.

And one of the things we've done we've implemented a much more detailed, a much more holistic approach to negotiating costing across our entire supply chain. We have a much more buttoned up approach than we had historically from the point of view of how we negotiate prices on the line item by line item basis, and that's really now allowing us to see some value, because of the way in which we're focusing in the way in which we negotiating the prices.

In addition to that because of the way in which we're managing our inventory flow and the way and which we're managing our process, we're seeing a reduction in inventory and that's coming from a couple of different reasons. Number one, we stood up a robust ES&OP last year, which really allows us to balance the demand and supply in the way that we had not thought maybe had not been as focused on as we were historically. So really making sure that that product flow in that process is in place is something that's really starting to drive value through inventories and you'll hear more about that as the day – days go through.

We've also focused on driving lead time reduction. And across our entire supply chain we've taken about 20% of the time out of our lead time in the last 18 months. And again that's allowing us to get much closer to markets than we've ever done before. It's also allowed us to reduce the number of vendors that we're working with. We've reduced our total number of vendors by about 30% and we've also reduced the number of countries in which we work by around about 20%. So again, that's really allowing us to really focus and really drive value through this operating model that we're putting in place.

So we're really starting to see the results. And it's worth noting that the results that you saw in Q3 were the results of the work that we put in in Q4 last year and Q1 this year because remember with the long lead times we're dealing with the amount of time it takes to produce product, it takes a while for those results to really kind of flow through. So you're timed to getting the first insights of how this model is really starting to play.

So what does the future look like? How we're thinking about how we're going to drive the supply chain in the future in the – sorry, I'll start that again. How we're thinking about we're going to drive supply chain forward in the future? We're going to focus on broadly the same three strategies, making great product, strategic sourcing and distribution and optimization. Making great product, the opportunity to really think about SKU rationalization continues to be something that is front and center. The number of SKUs needs to be informed by what the insights we get from the work that we're doing, understanding the consumer and really understanding how demand centered growth comes together and defines the number of SKUs we need to have within our portfolio to drive our business in the most profitable way that we can.

There's an opportunity also for us to double down again on what we call COGS optimization, cost of goods optimization. We already have put in place a relatively robust approach to handling costing, but we recognize there's another layer and this is kind of a three step journey. We've got another step on this journey we believe that we can continue to kind of double down and drive those things out of the process. There's also an opportunity for us to unlock some of the work we've been doing around creating product digitally and that's not something I'm going to share with you guys today, but this is something we've been working on for a while and it's really now allowing us to think about

how we drive lead times differently and quality of product is a cost of entry it needs to be there. From a strategic sourcing point of view, we need to continue to really focus on those core partners that we have that we're looking to build long-term symbiotic relationships with making sure we've got partners that can move to multiple different countries and provide that type of service that we need. Again, being really précised and how we're thinking about duties, as we grow our business internationally understanding the opportunities that exist, we're shipping product from one country to another as opposed to just being U.S. centric is again going to allow us a big opportunity to think about how we do that. There is an opportunity again to continue to drive down lead times and also there is an opportunity to think even harder about what we're doing from a sustainability point of view.

From a distribution and optimization, we believe that by thinking through how we manage our product flow and the way in which we're choreographing the business that's allowing us to think very differently about how we bring product through our supply chain, through the process of getting product into our distribution centers and out into -- to our consumers. The other area and this is the area I'm probably most excited about is something which we call internally the front side flip, which is Paul talked earlier about all the connected consumers and the connected customers that we have globally. How do we connect those more directly with demand? How do we connect that more holistically with supply chain? How do we connect that and so that that relationship is much more direct, and we believe there's a huge opportunity to think through that and really build on the great work that's already kind of starting, but we think that's a huge advantage for Under Armour and something that we're really only just starting to understand, but the opportunity around that is huge.

And again all of these things put together
are managing a robust [indiscernible] and process will give us an opportunity to continue to double down and drive inventory numbers. From a sourcing point of view, we continue to need to be nimble. As we all know, my sourcing strategy may change based upon whatever the next tweet happens to be because you know it can change that quickly. It can be that dynamic.

We expect to continue to have production in China. I'm going to be completely transparent and it's important for us to continue to have production in China because China as a market for us is going to be really important. So we need to still think about how we serve as a local for local out of China.

So China is still going to be part of our overall supply chain. But these numbers can change. The geopolitical world that we live in today and that the changes that are happening in there are probably happening now as the UK parliament kind of figures out if Theresa May, what Theresa May is going to be can change the way in which we need to think about our sourcing model. But overall, I actually think we've got a pretty good blend of how we're thinking about our sourcing based around a fairly large chunk in Asia and a reasonable amount in Latin America and in Middle East and then a percentage of that that kind of works local for local. So we're excited about how that all comes together.

So why should you believe me. Well, number one we have to trust the process. Patrik talked a lot about the go-to-market model and the way in which we're thinking about kind of driving this business forward in the future. This is a model. It's re-architecting the process and the results you're seeing now are clearly in line with our plan and they're really the results of the first season of us running this play.

We have a great plan. The plans really clearly defined and we understand exactly how to execute it.

Number two, the investments that we made in the business over the past few years are really now starting to pay off. Both Paul, Kevinand Patrick all talked about our investment in ERP, our investment in SAP. And is anyone who is been through it. SAP is really hard to put in, it's a difficult process to kind of go through. But once you get through it, the unlocks can enormous and we've now been through the pain, we've been through that difficult period of implementing it and we're really now starting to see the opportunities for helping us to drive that business differently. How we can help and form us with information that allows us to make decisions on how we drive our business. It's a huge opportunity.

We also now have scale, being a $5 billion all of a sudden allows you the opportunity to really negotiate differently and that's very different – we have very different conversation when you're $5 billion company then when you're $1 billion and that's again allowing us to really to unlock the process and the value that sit globally across the entire supply chain.

And finally we've got a great team. One of the strategies we have internally is called Building the Avengers. And if any of you guys are kind of comic book heroes you'll know that the Avengers are the group of superheroes who are the best of the best. How do you assemble the Avengers. How do you assemble the best in the industry. And I do believe that within supply chain as well as an

Under Armour overhaul we're actually we've got probably the best team in the industry to kind of execute this strategy.

So I'm really excited for where we're going. Again thank you for coming in today. But I'll just finish with one comment. One of the expressions we have an Under Armour is called dictate the tempo kind of manage the process, manage the way we drive and supply chain is really all about directing and managing that tempo, managing that process. We're in a great place guys and hopefully you're as excited as I am about the results we have to-date and where we're going to go in the future.

Thank you very much.[Music]

Unverified Participant

Please welcome President-North America, Jason LaRose.

[Music]

Jason LaRose, President-North America Region, Under Armour, Inc.

All right. Good morning. Full energy in this group, I want to feel it just a little bit. I can't see anybody while these lights are really bright. Thanks for making the time to talk about our business this morning. We're going to talk about North America. I'm going to set this construct up just a little bit as we take you through each of the regions 02:55:40 [ph] Massimo will come up and talk about EMEA. Manuel will come up and talk about Latin America, Jason will come up and talk about APAC. And in each case we'll take you through a little bit what's happening in the market, what's happening with the consumer, what's happening with our brand. And then we'll go through those same chapters that Kevin and Patrick kicked off a little bit; where we've been, where we are, or where we're going? So we'll walk through that a little bit. Obviously there's some familiarity with this market maybe above all others.

I joined Under Armour about five years ago and I joined to lead our Global e-Com business. So it was a great run trying to take our brand to all these markets where there was demand but not necessarily a great place to find out about it or to get access to the products. And a couple of years ago I came into this role leading our largest business and it's certainly an honor to be a part of that. Just the great team that we have driving this huge brand that's been around for 22 years.

If you look at our market in North America it's obviously what you're familiar with we've got about a $95 billion dollar athletic market here in North America between the U.S. and Canada. Obviously those two countries make up the total. The U.S. is about 92%. For us we run today about 180 stores in North America, we run two websites for Canada and for the U.S. In addition to that of course we have our mobile applications the things Paul talked about a little bit earlier today. And we've got about 13,500 points of distribution , which means, we're available in a little less than 40% of all the places that consumers can buy athletic apparel and footwear. So we're certainly not over distributed. We're well under distributed compared to our competitors, but that's where we are in the market of about 35,000 places to shop.

We talk about the consumer; about 30% of this market is what we define as focused performer, about $29 billion. And we know that this market includes probably a little more than half of the purchases that are happening for non-active occasions. But $29 billion happening just for that focused performer is a huge, huge opportunity for us. And at the same time, we continue to see growth in sport. There are different reports out there about every single sport, but in the end, this region is getting more and more active, more gym memberships, more runners, more women join in team sports. They've provide got a great foundation for us to continue to grow this business in our home.

And we talk about the brand, this is where it was born. This is our home. We have you here in Baltimore today and Kevin said welcome to our global headquarters and it is our global headquarters and that's cool, but it's also our North American headquarters. This is where our team who drives 75% of the business or so in North America or in total really drives what our brand means here. This is where the tone gets set. That focused performer work that we talked about earlier today, whether we went to the UK, or we went to China, or we went to Germany. We asked those 22,000 people, what is Under Armour. If they knew the answer, we said, okay, what does is it stand for? Unequivocally, men are women regardless of geography, or regardless of body type, or regardless. What did they say? They said we stand for performance. They giveRegardless, what do they say, they say we stand for performance to give us credit per performance, that tone get set here. And it started 22 years ago and we have that advantage here because we have 92% aided awareness in this country. There are first generation of athlete who have never lived in a world without Under Armour, which is super cool. My kids have never lived in a world where this logo wasn't a part of that. I didn't have to teach them about it when I came to work here five years ago. It was already a part of their world. We're just getting there. We've our first generation of folks who never lived without it. And while we have a great business and you know 75% of the total and all of that, the truth is we have great opportunity still in women's and footwear. Out of that $29 billion, over $7 billion is spent on focus performer footwear, a different $7 billion is spent on women's. We've done an incredible job authenticating those businesses and telling our story here in North America. But we are just scratching the surface at what those can be. In the end training where train is our largest category. I don't think that's a surprise to anyone, but it's really our foundation because we're a brand that helps make you better.

In the rear view, look back at this chapter, look at what our role was, our role in North America in this get big fast chapter was to fuel our international ambition.

Kevin showed you that white board that white board that was sitting on his white board in 2013 when I started here. At my first touch base with him after I started, and I saw that sitting up there. I was in Global e-Commerce, so I thought was going to draft off of that. Now, it turns out, I'm putting into that pie right.

But that was the goal. The goal was to fuel that ambition. We're going to have to tell our own story, we were going to have to fuel what DTC look like
we were going to have to fuel what DTC looked like and we're going to have to authenticate ourselves as a footwear brand. At the same time, the marketplace was changing, there is a lot of contraction in sporting goods, we also saw those trends for lifestyle product and we felt that contraction in our inventory at the end of that period. But while that was going on, we were running our play. Our play was to reach more athletes. We added more than 2,000 points of distribution over that time and we really did have to authenticate ourselves as footwear and women's businesses. We came out of this with a $1 billion footwear brand, so it feels like it worked, it doesn't mean that we're done but it was the goal. And where did that leave us. Well, we came into that chapter at $2.2 billion and we left that chapter at $4 billion. So we almost doubled the size of just this region.

And while that happened our international business grew 5x. Kevin talked about that a little bit earlier this morning. We used the growth in North America, the opportunity to reach more athletes and the money we could throw off to fuel our global ambition. And you can see we came out of this chapter at $4.8 billion in international business that's headed toward one day being the majority of this company. I can't wait for that day, because it's where the athletes reside. But for now we're ready to carry the bricks and we have.

While we were growing the market was definitely changing. The consumer is in charge there's no question about that. And the consumer over this same period was voting and saying I'd like to shop differently than I used
to and that meant that consumers were waking up every day and more likely to buy athletic over this period in e-commerce, in direct-to-consumer and department stores and they were migrating away from athletic specialty and sporting goods. Athletic specialty and sporting goods obviously still a big chunk, but that's where that migration was happening. So the consumer is moving in that direction, while still about a third of the market almost 29% is happening in channels where we don't participate at all whether that's mass or obviously vertical given that we're a hybrid brand.

So this is what's going on with the consumer in this period. What does that mean for us? Well we invested in those $2,000 and we follow the consumer where they were asking us to offer them product. We made huge digital investments and we come out of this period with 57% of our volume coming out was sporting goods starting at 65%. You see big growth in our DTC digital, where the customer wants to engage with our brand as well as really big growth in our wholesale business outside of athletics specialty and sporting goods, letting the consumer take us where we want to be a part of the journey.

You heard Jim and Patrick talk about that earlier today. That was the play and we ran through it and it was very successful but this kind of transformation, this kind of growth from $2 billion to $4 billion over that compressed time period doesn't come without some bruises. Doesn't come without any scars or any lessons learned.

And the effort to get better, there were some things we had to get better. Managing the marketplace was a really important part of that. We came out of that with more inventory than we would have liked to have. We had some competitive partners who may be caught us a little [ph] out-policies and suddenly all this category for being discounted when we have expected to be premium. We had a little bit more inventory than we would like to have. We need to have more discipline about how we managed it. We need to learn how to be $4 billion. At $2 billion I think we were still figuring out how to be $1 billion and then man we were $4 billion. So there's a lot of opportunity for us to get better at that. We also had to define really clear points of differentiation as we were expanding distribution, it was important that we looked great everywhere, but also that we told the right story in each channel for what that athlete expected from our brand. Some of you have commented on our segmentation and our readiness as we started to expand that distribution and honestly some of those notes they're fair. But I'm going to talk to you about how we segmented how we're doing it now and what we have to do going forward, so I'll unpack that in just a minute.

The evolution of distribution that we just talked about doesn't mean that we think retail is dead or that we think physical is dead or that we think wholesale is dead. We just think there's no room for boring anymore. You're going to be great or you're not. But still the vast majority of transactions are happening in physical. So the idea that it's all digital would be a mistake. There are wholesale partners who are unequivocally great and inspiring that focused performer and great at helping us tell our brand story. So we double down with those people. We are doubling down with who we think the winners are going to be. But those won't be people who only have great experiences in the store. These are also partners, who've invested their own dollars in being great in digital space. So our investments in digital aren't only about what we do in DTC or social channels, it's also about the content we create for our partners and the way we work with them to build experiences in digital space that will help us navigate that flight of the Bumblebee that Jim drew out a little bit earlier today.

And operational discipline, you feel it, as you go through that kind of growth. It's easy to get complicated and Kevin talked a little bit about what it means to keep it simple, and we needed more discipline over this period. And that's what we've really been driving you know Patrick talks about the go-to-market process. It is the backbone of how we're running this company right now, and it's making such a difference that discipline really is freedom for us, not only is it driving efficiencies, but it's really helped us get our organization right. It's helped us get together and be really clear about who's doing what when because we're amazing here at diving catches. Nobody will work harder than this group, but you can't do it at $5 billion. The things that work at $500 million don't work anymore and this discipline has been a really important part of the chapter.

So inventory has been a conversation, you've seen some progress in this over the time that we've – we've talked in our more recent earning calls. We certainly left the last chapter with more inventory that we would have liked and we left with our – our retail dollar growth or a percent growth being outpaced by our inventory growth, not an exciting thing. So what do we have to do, what we have to clean it up. We knew we had too much inventory in the marketplace.
So what do we have to do, well we have to clean it up. We knew we had too much inventory in the marketplace. We took it back where we needed to. We worked with our partners to look right and you can see that trajectory as we get into 2017 where our retail sales are outpacing what's happening with our inventory.

But as you do that in 2017 and 2018 obviously there's some impact to gross margin. So you see gross margin coming down in the early part of this chapter in 2016 and 2017 but you get to 2018 and you start to see this divergence. You see our revenue at retail far outpacing what's happening with our inventory. And you see our gross margin getting in line and as that gross margin gets in line we're only two years into this three year transformation we're coming out the other side in 2019 still with that divergence with our retail sales far outpacing our inventory.

But at the same time you're seeing our gross margins go up. Because there's less product that we need to sell off price or promoted. We've got the market place healthy and we can grow from a really, really strong base.

Now segmentation I told you I unpack this for you just a little bit. We've always segmented anybody who thinks we haven't, wasn't on the inside of this place. But we segmented thinking about us, thinking about our product. We're a product based company, we always had our premium product in premium places to distribute, our best athletes knew where to go to find Under Armour, they walked in and they found it and they performed at their best level.

But we broke our retailers out based on those levels and so our best product was in our best retailers, our better product was in our better retailers, our good product was in our good retailers, no trouble with that. The challenge is that it doesn't break out perfectly that way right.
Good level players may never have best level product, but best level players still need to have some good level of product. And we had an opportunity to differentiate better at the good level as we expanded our distribution. So how do we do it? We start layer in those consumer instances, you know Patrik talked about the focus performer today not being amused being a mindset and as you get smart about that mindset you understand that they're different occasions that you're not the same period 24 hours a day. It's important that we understand how they want to find us in the market is not the same. And so now we start to overlay that same consumer and say part of the day she's running, and when she's going to run this is what she expects from the brand. But part of that day she's going to be in class or part of it she's going to be just running her daily errands in active gear and how she thinks about engaging our brand, the gear she needs and the experience that she wants to have when she gets into retail is different.

So, we overlay those occasions, and we move our retail partners out. So we really went from a one access segmentation to a two access segmentation. And while this has been huge progress and I know many of you have seen it as you walk through the market, and I can tell you our wholesale partners are much more excited now about how segmented we are versus when we enter this chapter, but we're not done, because those insights are only going to get better.

As we take the focused performer and what it means to be that in total down into the insights of what it means if you're in training or in running, core sports or the like, we'll continue to get more and more refined about how we show up with different partners and at the same time while a 17 month supply chain is shorter than it was still 17 monthssupply chain. Still means there's some of the product you see on the shelf right now was already designed and conceived before we even got into the go-to-market process. So there's only opportunity for us to get better and better at this as we run this play over and over and over where we're really excited about the progress we have made and I can tell you our partners are really excited about the progress that we have made. So what does that mean going forward?

We're worried or obsessed maybe if that's the word maybe obsessed. That's the thing that keeps me up at night. We're concerned and obsessed with being premium. It's important, that's how this brand started. So where we've been so we get credit for all around the world.

The tone for premium performance is set in this market and we take that role very, very seriously.

So we're very focused on that premium distribution. We know there'll still be some contraction in the space. That's okay, we're planning for it. But we're going to continue to drive our opportunity in footwear and women's.

We know that part of being a great footwear brand, part of being great women's brand is the other side of that 22 year brand. When you've been here 22 years and you've started the way we started , we have consumers that know us as a different brand than the one we're becoming. At least they may think of us as more masculine or they may think of us as more about apparel. So we have an opportunity to continue that education as we work through this time period leading with train and run which are not only both large and growing but they're also dual gender and head to toe. And making sure that where we have to tell our own storyin direct-to-consumer we do it. Because there are times that we just need to amplify our mega phone and we will. And moving from that operational discipline, we're just getting right about this stuff, we're just figuring out how to run a company as great as our brand. So as we work through that those operations lead to even better service for our wholesale partners. And we've made great progress on this post our ERP implementation. We're going to be really disciplined about investing our money in high return areas and we're going to worry or obsess whatever the right word is about that go-to-market push because it really is the backbone. And when you feel us making the right product for the right focused performer with the right assets at the right time then it's easy to lean in and to feel that momentum. And I think our competitors I think they hear us come in again and its fun.

It all rolls up to a financial outlook. You'll see this slide I know you guys have the handout, saw this or you will see this with the other regions as they come up. You know the period that we're in, you've seen some contraction from a net revenue basis and that contraction has happened because it is net revenue. We've had to clean up some of our inventory in the market. And when you take some of that inventory back, it can offset some of the great things that are happening at full price I understand that but there's really good progress over this period you saw where we ended 2017. There's great progress in 2018 and we're going to continue that progress as we get into 2019.
More importantly, when we come out of that, we're going to feel positively about growing our brand in North America, you see low-single digits up there. I'm going to unpack that for you in just a minute, because I want to help you understand why that growth is so balanced. And how we think about it.

But in the end, we benefit from the investment that have already happened in our region, we have 22 year old brand,. We have the systems, we have infrastructure, we have the team, we have the brand, we should be able to leverage that and we are. And so, as we leverage it, we're going to continue to put dollars to the bottom line and you see that mid-single digit operating rate here in North America.

So, let's dig into that low-single digit growth number for just a minute. You see this based on in 2018 and the year is almost done and David will talk about that.

Yeah. There are some things that are happening in the marketplace that we're planning for. We're playing to have less off price in our market. We don't need it, we're premium brand, there's a time you have to do it. You take back all of that inventory, you try to get it right. You deal with some contraction, get out of the inventory. It's good for our brand, we like the investment, but it is an investment, it is a revenue that we'll take our top-line down, but in a way that will be happy. And we are contraction. We believe we're still going to see 3.5% to 5% of the doors here in North America close on an basis. So, we plan appropriately, Some of that volume goes into of others, direct-to-consumer, strategic wholesale and the like. But we also know from history, that some of that demand will just go away. So, we plan for it appropriately

So we planned for it appropriately. It's offset by all the places that we're really excited about telling our story. We've amazing strategic wholesale partners who do a great job telling our story, a great job reaching the focus performer. We're going to continue to invest with those folks and we're going to see disproportionate growth inside of those boxes and on those websites.

On top of that, specialty will continue to be really important to us. We've historically done a great job in specialty when we think about places like Golf or specialty like Lacrosse, but run is a really important place also. And we have some great momentum with HOVR with really premium technology than elite runners are embracing. And so run specialty that place to set the tone for really elite runners will be important for us as we go forward and it's a big part of that growth.

Add-on to that of course big growth in DTC and the investments we continue to make both physically and digitally in those channels. And that's how we get to a number that feels like low single digits.

I just want to make sure that everyone understands what we think about, we don't need more investments from an SG&A perspective in this market but we do need to invest in some of the revenue to make sure that we continue to be the premium brand that sets the tone for performance around the globe.

Just a couple of other cuts for you by channel that means DTC is going to move from about 38% of the total here in in 2018 to about 43% over this period. Wholesale is going to remain flat and you see that that wholesale number the growth here from flat to 2%. And that's again offsetting those investments that are happening with the growth that's happening in strategic in specialty. But you can see that move here is predominantly happening at DTC because they don't deal with that kind of contraction in in any part of their business.

We look at it from a product perspective. The growth is

disproportionately happening in footwear as you would expect; it's a huge opportunity for us. Today we still wake up with our awareness in footwear at 26%. So, 26% even in our home market, even in a place where we have 92% aided awareness, it's a huge opportunity for us. So you can see that disproportionate growth.

In the end our goal is to set the tone, to reestablish Under Armour as the performance authority here in North America. And also to drive our profitability with excellence that's the goal, that's what my team is worried about every day.

I'm excited about it because the foundation is set. We have our systems in place, our infrastructure is here, our inventory is in line, and we're prioritizing servicing our customers. The full price distribution is critical for us. It's where we're focused. We're obsessed with the idea of being premium everywhere and that means doubling down with the winners. The folks who are able to help us tell that premium story, we're investing in those footwear and women's businesses, we're under-penetrated and we have great opportunity, and we're really excited about how segmentation is delivering differentiation for us everywhere we sell our product. And we're redefining what growth looks like. There was a time that growth in North America just meant top line. Go get the money. Sell the product, reach more athletes, fuel our global ambition. We've done it, and now that we've done it, we turn our attention to redefining what growth looks like, which means the number one goal for us when we take premium and operational discipline together is operating margin. that's what we're going obsess about over this period and that's what you can expect from this region.

In the end I can tell you I've never been more excited to be at Under Armour. Like I said I joined five-and-a-half years ago. I'm thrilled to be with you guys today but I'm also thrilled to just be in this place, in this brand, in this team, in this region. We have so much more to do and I'm excited to be a part of it. This region is not done growing. We are just changing the definition of what it feels like here in North America, and I'm excited that the tone for premium athletic performance is being set right in our home, our global headquarters and our North American one.

Thank you for making the time to be with us this morning. I appreciate it. Looking forward to seeing everybody during Q&A. Take care.

[Music] (03:23:28-03:23:38)

Unverified Participant

Now taking the stage Managing Director of Europe, Middle East and Africa, Massimo Baratto.

Unverified Participant

Good morning, everybody. My name is Massimo Baratto, I'm the Managing Director of Europe, Middle East and Africa, the largest region in the world. I'm really glad to be here with few and speaking about the present and the future of my region. Starting with the market. The sporting good market size is $75 billion opportunity growing at low single-digit rate. The fastest growing category are training and running outpacing the market growth. We are presenting 57 countries on more than 100 and that's curiosity our region we speak more than 2,000 Latin languages. We're a very diverse region.

Focus performer, we've heard before are more than 22 billion consumer opportunity is roughly one-third of the total market. Online is booming, but is not anymore a channel is really a new dimension of the consumer life and we are completely in with our Connected Fitness platform and ecosystem.

As macro trend, performance upper limb footwear are emerging with lifestyle. As an example of that JV, [indiscernible] is the fastest growing and really expanding globally. Regarding the brand, Under Armour in our region as a clear brand momentum. We are the aspirational brand for the consumer and the customer and we like to maintain this aspiration.

All our buying group's strategic accounts and key accounts are really opening to us the doors because we grow. They see us as the real challenger of the big two competitors. Our aided awareness in average is 55% up to 75% in the UK following from Germany, France, and Middle East and unaided awareness is growing in average till 15% up to 25% UK while we were focalizing ourselves to win.

Moving forward, we like to concentrate ourselves in three clear strategy. Grow strategically, grow strategically, enhance premium distribution and improve our profitability. After scaling and reaching the important critical mass in terms of revenues we like now to protect that in transitioning in a very controlled grow model, which mean, mean putting the consumer in the center of our life and really take every decision only looking that.

Our consumer is expecting a seamless experience in a holistic way. Therefore, we balance out channels and we are over investing in the [indiscernible] in retail and in e-com, and of course we integrate the really powerful connected fitness platform, using all the connection and inside.

Working by processes and of course evolves like we heard before our go-to-market process and the operating model allowed us to become efficient in our region and of course increase profitability. The financial outlook is mirroring what I explained before after the protecting this house period where we are growing in the mid-20s. We are now transitioning to perform with balance, putting really the consumer in the center, we've from mid-teens grow till 2023 with the high-single-digit growth. Focusing on operating income, our goal following all the efficiencyall the working by process that we do we aim to achieve a mid-teens operating income by 2023.

Following the consumer [indiscernible] we balanced the channel losing the dependency of wholesale and wholesale is becoming till 2023, with the wait from 75% by growing over proportionally in direct-to-consumer in retail and in digital. We focus ourself to grow over proportional in footwear because the footwear is the biggest opportunity now a region to is also important because we footwear – we become real holistic performance brand.

Regarding our future growth, maybe one center is really resuming our strategic intention. Evolve our foundation to grow strategically a build a sustainable and profitable brand in our region. We like to achieve that following five easy key focuses mirroring the corporate strategy. People first, winning is a question of people. So we aim to build a team of strong individuals, acting like one with global. Building the brand, our ambition, our goal is to become a love brand for the focused performer leading the training category a delivery and incredible athletic journey. That's allowed us to sharpening our brand positioning, the humans performing company. Grow our awareness and of course become the absolute leader in trading. Owning the channel, owning the channel mean that we don't distribute product anymore, but owning the channel mean manage space, manage space to be a brand we need to manage space to get to the brand all the opportunity to show their story, their values and the performance, and that we do in the physical, in the digital channel and also that is really precious using all the data that we have with our ecosystem that is said before, set to the standards. We need to deliver the promise to the consumer. So we are constantly rating ourself to streamline all our processes and delivery on time and full.

Following the working by processes, executing the new go-to-market and working with the clear operating model allowed us really a lot of efficiency to reach our planned operating income of middle-teens till 2023.

But finally, is the question of execution. So we like in our region to differentiate ourself through execution with excellence of the above strategy, through the last detail, because really for us winning in our region is the question of the last detail, building brand is a question of detail. Go us first to the finish line is a question of detail that's we like to do.

Europe, Middle East and Africa we believe to have really the passion for the consumer and for the brand to had the brandhave the brain. Now we're working a scientific way by data and we know how to achieve all our goal and we have the money to do that. And we produce money in the top line about online to sustain our business in the future. We will. Thank you very much.

[Music]

Operator: Please welcome Managing Director-Latin America, Manuel Ovalle.

Manuel Ovalle, Managing Director, Latin America

Good morning everyone and welcome for the next 10 minutes for the amazing 03:33:15 [indiscernible] of Latin America. I'm Manuel Ovalle, I'm Managing Director for the region. I'm five year with Under Armour and more than 20 years in this amazing industry.

So let's talk about the region. Today we have 38 markets in Latin America with 4 directly operated and the rest through 6 03:33:36 [indiscernible] including our recently appointed licensees that we're doing in Brazil. Our LatAm expansion and direct presence started five years ago and today Mexico is our largest single market. We will end 2018 with 75 retail doors almost half and half between owned and operated and retail partners. Also we will end with three e-com sites in Mexico, Brazil, and Chile. In wholesale we have approximately by the end of a year 3,000 doors across that America. So let's talk a little bit about the consumer. Our focused performer on market opportunity in Latin America is about $9 billion. Latin American consumer is passionateabout sport. We see this every day in all major cities like for example São Paulo and 03:34:35 in Palermo and Buenos Aires were more and more people are training and practicing sports individually and in teams.

Our Latin consumer will continue to have plenty of opportunities. This possible household income will grow by 22% from now to 2030. And we are in the early stages of digital, just 3 out of 10 consumers will make at least one digital purchase in 2018 and we expect this to continue growing.

As mentioned before the brand is quite new in the Latin America. Our [indiscernible] our brand research show aided brand awareness are on the 50s and we are unaided around the 15 also our brand awareness in footwear was low but for sure growing the last years.

But these viewers are 20 months back and with only two years or three years in those market at that time. Who're just finishing our new research for most of the countries in the region and we are expecting a high positive -- we're expecting a positive update soon.

Train is clearly our largest category and footwear and run are coming as the largest opportunities in the year to come. So what we are going to do while moving forward we will look for low double-digit revenue growth. We will focus on key markets Argentina, Mexico and Chile while we continue supporting our distributor across our region. We'll continue to invest in it to see expansion through owner operator plus business partners across the region. We will continue to invest in the DC expansion through owner operate plus business partners. We will double the number of store by the end of 2023. And with regard to digital, we will drive growth through owned and operated on Under Armour partnered sites also through wholesale e-commerce and we will also capture opportunities in marketplaces with key players in the region.

For sure, when we talk about categories, our focus will be we'll train and run, which they account for more than 70% of the business. Where we win run through footwear innovation. We will protect performance, our performance score in training, which was also our brand foundation in Latin America and we were sure, we will authenticate the brand with core sport in the countries.

So how do we will drive profitability? We are finding the best mix of the different business model according to what is best for the market and for Under Armour medium and long-term profitability. As an example, [ph] seven years ago, we switch our Mexico operation from being in the distributor to our non and operator subsidiary. And this year a few months ago, we make also a change in Brazil, where we – we appointed a new distributor license in the country. Vulcabras, one of the biggest footwear manufacturer in the region and distributor is starting – has he already started our operation.

We will continue to improve our supply chain, bringing discipline and execution and we will optimize resources and processes across the region, leveraging our scale. When looking into marketing, it will be about measuring, measuring and focus our investment, authenticating the brand. We are a new brand in the region and we are doing really well. Under Armour, it's very well-positioned and what's our focus since the beginning. We have been growing and we will keep growing at low double digit percentages. We will continue to invest and we will become a profitable leader – profitable region. Year-over-year, we have target of a high single digit operating margin by 2023.

Wholesale and digital will be our fastest growing channels. Wholesale will go from 68% of offshore business to 75% in 2023. We've seen wholesale growth, we also consider partner expansion including the retail and digital operations. Our business in Latin America was initially built on a strong apparel and accessories offering. And today both account for 65% of total business. Believe me that in the initial years this was close to the 90% where current focus on footwear will be reaching 42% share by 2023. Footwear is our fastest growing prototype and footwear is our biggest opportunity in Latin America.

So let's finish this quick journey into the region with the reasons to believe. Our regional office started only five years ago. And our operation in Argentina in Colombia has less than a year. We have a great team from Mexico down to the south to win this next five years. We will work together to bring life our goal, we will work together to build, perform and brand awareness through premium distribution to drive sustainable revenue growthwhile delivering improving profitability. We will achieve this through a premium distribution. We will be playing with key retailers in each market. We'll continue investing in full price DTC through owner operated and retail partners. And we'll continue protecting our brand, having a clear segmentation.

Latin America is all about footwear, footwear is in some markets up to 70% of the total business. Since 2014 we rolled footwear business five times and we expect to double again by 2023. To be successful in footwear we need to succeed Run. Run is our footwear leading category and HOVR is our leading platform. Also to support and consolidate this footwear world growth we will for sure deliver impactful innovation across pricing structure.

And finally what are we doing from now to drive a profitable expansion. Mexico plant is already in place and we will double our business by 2023. Argentina is the third biggest market in the region and with one year in market we really can say we are just getting started. Also I'm convinced that with our Brazil business partner Under Armour will grow fast in the years to come. And this will contribute be directly to our profitability. In a region where digital is in the early stages and with multiple opportunities we will reach our focus performance consumer at every possible touch point and started 2019 through ourconnected fitness community, we already have million of them. So adding all this up put it in a position to continue growing our revenue and more important become a profitable region year-over-year delivering high single-digit operating margin by 2023. Thank you very much, and enjoy the rest of the day with us.

[Music] (03:42:42-03:42:52)

Please welcome Managing Director Asia Pacific, Jason Archer.

Jason Archer, Managing Director-Asia Pacific Region, Under Armour, Inc.

Good morning. My name is Jason Archer, I'm the Managing Director for Asia Pacific. I've been in the sporting goods industry for over 18 years been on this six-year journey with Under Armour now and I'm super excited to be here today and I couldn't be more excited to talk about Asia Pacific in the future ahead. I'll spend the first couple of minutes introducing our market overview and let me talk about our four direct markets that we run in APAC.

Start off with China, Under Armour China was established in 2011 as an own business and has grown into a premium DTC channel with national reach. Our Managing Director for China Christina Mei will provide more China specific details in a few minutes. Australia Under Armour business down under began back in 2014 and through a key strategic partnership on the wholesale side, we've grown to be one of the leading training apparel brands in Australia and now have DTC business built up and are distributed across multiple channels in the country.

We also have an exceptionally strong participation in our connected fitness platforms in Australia. In Korea, we entered in 2016 following the same DTCmodel that we have in China and are very happy with the success we've had and built upon a previous partner that had also worked very strongly in the department store channels in Korea.

India, I am excited to speak a little bit about our newest entrant in the portfolio. We're currently partnering with two online retailers premium online retailers and are excited to officially launch the brand and the offline presence in India in the first half of 2019. Among the other distributors and licensee markets in Asia Pacific of special mention is our partnership with the Dome Corporation our licensee in Japan. They've been an Under Armour partner for almost as long as Under Armour has been around. We have a 29.5% equity stake and we have extremely strong presence in Japan with runway ahead on the DTC channels.

Rounding out our presence in the region, we have distributors covering all major markets starting with the newest ones Hong Kong and Macau we have a partner running franchise stores in those countries. Southeast Asia, we have a distributor who's been with us for five years also working primarily in the DTC channels, New Zealand it's over 10 years and Taiwan over six years. So as you can see we are at various stages of maturity, but generally just getting started in the region. We do have 14 e-commerce sites across the region complementing the almost 700 stores. So the consumer can really shop and find us in whatever channel they choose. And even with over 1,300 distribution points across APAC we're still a relatively new market entrant in most channels [audio gap] (03:45:56) economy in 2027 and by 2030 India should grow to be the third largest economy. And with the APAC total sportswear market expected to be about $125 billion at the macro side, we're really excited about the runway ahead in Asia Pacific.

Looking at the consumer We're really excited about the runway ahead in Asia Pacific.

Looking at the consumer although there is tremendous diversity across the region, Under Armour target consumer there is a common thread of active lifestyle and competitive mindset that cuts across markets and genders. So what you heard earlier on the consumer research that we have done we really found that even with the diversity across the regions we have a common thread and we're really able to go after that focused performer with the $32 billion addressable market.

We're also really excited for the next four years ahead in terms of the mindset of the consumer and emerging connection to sport. I think everybody remembers earlier this year the Winter Olympics in Korea, we have the World Cup – Rugby World Cup coming up in Japan next year followed by the Olympics in Japan. And then the Beijing Winter Olympics coming up in 2022. So really excited about the world's focus on sports and the emerging sports participation in APAC.

I feel the play is massive and there are two other key factors driving this. We spoke earlier also about disposable income. We expect both China and India to add over 700 million middle class households by 2030. And then the second piece is really about the health and fitness.

So a lot of the market consumer insight research we've done really shows us in talking to the consumer and across APAC that consumers are connecting with sports, really looking at the running boom coming up in China, and really about the training, cycling, fitness all the different codes of sport across the region are where we're going to grow. The consumers also are willing to pay and invest in premium performance sport wear which is exciting.

Our brand awareness is growing quickly and all the key impact markets. If I just take China and Australia as examples, Attica referred to earlier, in China our brand awareness almost doubled in the last year. And in Australia we reached 40% awareness in four years in that country.

Footwear remains a key opportunity for us. Our brand awareness is at 50%, which is actually really exciting. I think a tribute to our DTC business. We're starting off as a true head to toe. So, we're ahead of the game in terms of the footwear potential ahead and capitalizing on that. Running and training and do remain the key categories and strong vehicles to continue to excite consumers.

A recent example, this past weekend, we had our second year of partnership with Singapore Standard Chartered Marathon, was close to 50,000 runners, running in a experiencing Under Armour running in a true authentic way. And we're excited for these types of events going forward and capturing the consumer.

And so, just before we move on to our future expectations and strategies, let's take a closer look at China, where the message from our Managing Director in Shaghai, [ph] Christina May.

Unidentified Participant

Hello, from Shanghai, I'm very grateful today to be able to spend a few minutes to talk with you about Under Armour's fastest growing market in a faster growing region, China. As a quick background, I've been with Under Armour for nearly four years, and following my position as Head of Finance. I was appointed General Manager of China, this past summer.

Before I provide a bit more detail about Chinese business. I just want to underscore how excited I am. We all are about the long-term growth opportunities in China for Under Armour. On top of this economic foundation, Jason has laid out, there is an accelerating behavioral shift with government back to support towards healthier more fitness focused lifestyle. As Kevin has mentioned in his opening, sports is really a great business to be in especially for performance oriented brand like ours or as or Nokia a professional brand that is authentic in sports and dedicated to innovation. U.S. brand positioning is growing fast and strongly in both footwear and digital, China over indexes the whole company in terms of penetration. In China we don't have the legacy of being in parallel business with added-on footwear, with expectation is already. With products like HOVR and [indiscernible] franchise we are winning over the running community while building upon a solid base of UA basketball fans combine that with the population that is adopting digital and mobile faster than North America and Europe our focus is to connect online and offline in a most brand appropriate ways.

UA in China is the brand for focused performer, in that respect we will stay firmly rooted in athletic performance, small, focused, purposeful. Our Chine strategy remains focused on driving growth across our patent adults and our direct-to-consumer O&O business. We partner with our distributors to ensure we have appropriate control of our brand and to continue to build authentically and ways displaying to ensure that we maintain a premium positioning in the market. By the end of 2018 we'll have more than 400 orders made in China, in the next three years to five years that number is going to increase to more than 1,000 and even then compared to our competitors we are still a fraction of their size.

However, we prefer to stay premium and selective in location selection, while consumers and market continues to evolve online. In summary, we remain extremely bullish, bullish yet measured. We expect the China revenue to outpace the UA Company as a whole and we'll continue to drive operating profit margin rate to be among the highest in the company.

China revenue to outpace the a company UA as a whole and we'll continue to drive operating profit margin rate to be among the highest in the company. Will be true to our performance brand positioning staying selective and premium and being careful not to grow for growth sake. China will continue to reach out to more athletes and fulfill our role of helping to fill global growth.

Thank you again for your time. With that, I'm going to hand it over back to Jason.

Jason LaRose, President-North America Region, Under Armour, Inc.

So as you can see we're incredibly pleased with the business we're running in China. We're executing against the right strategy and continue to deliver long-term sustainable growth in this market. As we turn to the future of APAC, we've established three strategic goals to guide us along our growth journey. Enhancing premium distribution, particularly true in China, where we are going to expand into second tier and third tier cities along with the expanding middle class, but in a premium way. And while more than 60% of our full price DTC stores are in China, we also see success with this model in Korea, Southeast Asia, Hong Kong and Taiwan. We also see the importance of digital growing daily with digital touch points found everywhere along the consumer journey, getting to know the brand, learning about product, getting recommendations, placing orders, making payments, it's all happening in the digital world.
We'll continue to lead with e-commerce on both are owned and operated sites as well as strategic marketplaces as they evolve in the region, driving full price sales, as well as active participation in the online shopping festivals as we call them like Double Eleven in China, Black Friday, Super Brand Day in India. These types of events are continuing to drive traffic on the e-commerce channels.

Also referred to earlier, our omni-channel capabilities and endless [indiscernible] ship from store, those are all going to be coming online again enabling that consumer experience across channel and we're going to continue to capitalize on our strong base of Connected Fitness and the digital elements with the shoes and how we take that forward. and we're going to continue to capitalize on our strong base of Connected Fitness and the digital elements with the shoes and how we take that forward. We will also engage with locally relevant platforms and communities within each country to enhance our already strong consumer connection.

In terms of category penetration, it's a must win in footwear. We will continue to lead. HOVR saw great success in the region, actually one accolades from media, professional run clubs as well as the casual runner and we will protect the core and training and running leveraging that growing popularity across the region. There are a number of other categories we call them emerging opportunities where we are underpenetrated today and if you look at Gulf and markets like Korea, Japan, Australia, Southeast Asia, you look at outdoor. We've actually seen some really good success this year with our launch of our Long Down Jacket in Korea. These types of category expansion, the consumer will bring us there and we're ready to capitalize on these opportunities.

Our final strategic goal is to ensure long-term profitable growth. Our brand is at various stages of maturity across the region. So we're developing a multi-faceted investment approach, building out distribution, making sure we invest the right amount into marketing, consumer engagement and more. With this sustained brand heat, we will accelerate scale driving the efficiencies we need and we will pursue a controlled growth, however to protect that premium positioning you heard from Christina, specifically in China. Through mapping the marketplace, our DTC channel will continue to grow with appropriate segmentation allowing us to maintain a high gross margin.

And finally, on the bottom-line you heard about the GTM processes and SKU rationalization from both Patrick and Colin, the supply chain improvements we've seen as well as implementing a new ERP system on the global platform coming up early next year will allow us to deliver more on the bottom-line. When we include potential licensing agreements that we're looking into the out years also exciting time ahead from our profitability.

In 2019 on the financial side we will continue a chapter of our incredible growth and expansion across APAC, where we pivot to the next three years with a greater focus on efficiency and targeted growth.

As Cristina mentioned we're not going to grow just for growth sake and we'll be thoughtful on the opportunities to ensure that we protect the long-term. We will balance that growth with profitability and operating improvements expected into the mid-20s as we look into the out years.

In terms of channel perspective, revenue growth remains balanced between all channels. One note on this slide or in the wholesale channel you will see our partner retail stores. So our full retail business is not reflected in the DTC channel but we also are now expanding on the wholesale side also in certain markets like we have the strong base in Australia when we look at Southeast Asia and opportunities as they arise.

APAC from a product side has a comparatively high base to start off within footwear. So we anticipate balanced growth across all divisions going forward which is great for the brand and there is a little bit of upside on that footwear side when we look into the out years, and the fact that we're positioning ourselves to really take advantage of the running boom and the use of footwear.

Our goal at the end to sum it all up, we're going to drive demand with localized brand heat, fulfilling consumer desire with controlled expansion, and delivering balanced growth with higher profitability. APAC is a growing fitness marketplace where we're positioned to take advantage of that. That $125 billion big market, the addressable market we're going after with the focused performer at $32 billion, we're also anticipating some halo in the sports dial, I think Kevin referred to earlier to the SPF of Under Armour.

halo into sports style. I think Kevin referred to earlier the SPF of Under Armour, our product looks great and will allow us to continue to grow. There will be wider and deeper channel penetration, again doing that thoughtfully to the growing consumer demand and this will be executed across the region.

Adjacent categories, marketing penetration we spoke about earlier also and in those categories like golf, like outdoor, and we will continue to expand and take advantage of those opportunities. In terms of operations our regional structure is firmly entrenched now, we've put more resources as Patrik referred to earlier into the region to take advantage of the opportunities. And our inventory management with the new ERP system and taking advantage of all of that will really allow us to continue growing while operating with discipline.

Protecting the premium positioning, you've heard this theme consistently throughout the morning. We are going to grow in that controlled manner and believe very firmly in protecting that premium positioning. The deep digital consumer connections, the DTC, world class are from our real estate selection to how we operate and work on the omni-channel and that consumer between offline and online we believe strongly that we're set up for success.

So in wrapping up we feel that our strategy in APAC is aligned with the expected macro development as well as the increased fitness and running boom and that focused performer is right at the target of where we're going after and we feel great about the future. As I mentioned at the beginning I'm extremely excited and I have been in my entire career and excited about the opportunities ahead in Asia Pacific. Thank you. Enjoy the rest of the day and appreciate it.

Unverified Participant

Please welcome Chief Product Officer Kevin Eskridge.

Please welcome Chief Product Officer, Kevin Eskridge.

Kevin Eskridge, Chief Product Officer, Under Armour, Inc.

Hello, everyone. Thank you for the welcome. As the man behind the curtain said, my name is Kevin Eskridge, the Chief Product Officer at Under Armour. I've been here for almost a decade now but only in this role for about a year-and-a-half. My responsibilities really include product merchandizing, design as well as category and it's that last one category that I am here to talk you about today. I really want to just explain two things. Where we are in our evaluation to category and why it's so important in critical to unlock and really enable everything that you see in this morning.

So, talking about that evaluation this is really where we were last time that we met three years ago. We were organized around apparel, footwear and accessories. And then we had the cross functional plug-ins with disciplines like marketing and planning. It was an efficient way of working then back but as we grew, as we grew in terms of scope of our product and as we grew in terms of regions wasn't the best way to work and so we've evolve into our category structure.

So, what we now have is a complete vertical with a Category GM at the top but with many of those disciplines right underneath. So product management and set up by apparel footwear and accessories is into the GMs but also design is organized around category, merchandising which is a relatively new function for us actually last time we met I was the first merchant we were in the middle of building out the team. Merchandise planning, marketing and strategy, each of those disciplines are under the category ensuring that we have a cohesive approach as we attack our opportunity.

And then within our categories we've group them into nine categories that are focused on four groups you've seen referred to this morning but I'll get into that a little bit more later. But within this category structure
what that really does, there is three big unlocks, first, it keeps the focused performer at the top of all of our decision making. And while we do have one mindset that we're attacking this focused performer, that mindset applies different into sports like running versus training, versus bat and ball sports or core sports.

The global merchandizing and planning functions and those strategies are integral and perfectly integrated with the product strategies that we have and so, we're just guessing much better execution and flow through of those strategies. And then finally, as we just heard from my four regional partners and you know with our nine categories, the math got pretty complicated pretty quickly in terms of lines of communication. By having a category GM structure, there is a plug in and it's unlocking speed and just making sure that we're consistent and that there is no miscommunications or missteps along the way.

Now, while there has been a lot put underneath the categories, we still work a lot with things that are sort of category agnostic. So, when you think about global brand marketing, you think about regional merchandising and the insights that we get from there. Our innovation team, the investments that we make operations, our pricing functions, they all you know revolve around what I call the hub of the wheel which is the category, you know not to mention connected fitness and just the tons and tons of insights that we're getting from there and really applying those to how we build product. So, as that hub of the wheel, but we are an orchestrated offence and like any good offence, everybody has different roles to play. Our forward grouping is a category as you can see behind me and the roles that they have to play strategically. So, we're going to continue to lead with our training function. It is the biggest slice of that $92 billion and arguably what we're most known for and arguably what we're most known for. We're going to fuel the running business. It is doing great, we're going to take advantage of the opportunities. You've just heard about the running room in Asia as well as the amazing innovation pipeline that we have.

We want to continue to authenticate ourselves with core sports and outdoor that really speaks to that specialty channel and when people start to obsess about their sport, that's where they go and you get into a very nuance product in this area.

And then finally we want to use sport style footwear to continue to build that emotional connection around footwear. Part of that emotional connection is going to be come from the great performance that they have but we can amplify that connection and therefore that continued reapy purchase with the consumer by putting a sport style lens on some of those performance styles and allowing for more wearing occasions from them really attacking about two firm piece.

Now you know it's one thing for me to talk about like the different nuances but with the universal mindset I really do think it comes across the best from the voice of the consumer. So I've got a quick video here that I think illustrates it really well.

[Video Presentation] [audio gap]

I mean I – I don't know I get sales watching that for a couple of reasons, one I think it just really illustrates the strategy and the opportunity really well. You didn't see any demographic in there, there wasn't a specific age or gender or race or country or anything but there was a specific mindset and that's really what we're going after and what we're trying to do. And that is like the tedious tip of the iceberg in terms of the conversations that we're having with our consumer and the insights that we're getting both through ethnography work like that combined with the digital stream that we have and really using that to build product and make sure we meet the expectations.

So along with those expectations there is the big opportunity and the slice on the focused performer is $92 billion as we've identified it. How that applies to those four big category groupings Train is about $24 billion. Run is $12 billion, Core Sports grows on another $13 billionrun is $12 billion, core sports throws on another $13 billion and sportstyle footwear makes up $12 billion, so that hits about two-thirds of that addressable market. There are other sports that make up that last third, but again these things will halo into there and cover that opportunity.

And then, what our portfolio should really look like over the next five years? It's pretty straightforward. Training remains 50% of the portfolio. Really the growth that you're going to see is in run, which is going to go from 13% up to about 18%. Also illustrated by the CAGRs along the bottom, everything's in the single digits, but you'll see run in that 13% to 15% again taking advantage of the growing popularity of the sport as well as footwear unlock that it allows, which you've just heard was critical to all of our regions.

And then, finally, I just want to leave you with some reasons to believe. One, we're going to be grounded in innovation, Clay and I are attached to the hip. Our offices are across from each other, not next to each other, I look up from my desk, I'm looking at him, he looks up from his, he's looking at me. And so we're really ensuring that that pipeline and that was handoffs are becoming more and more seamless and more and more consistent.

We have a consumer centric go-to-market, along with the process shortening, along with more data and intelligence coming in with that process, what it's coming into is that funnel of the category stack, so we're keeping that focused performer for that sport top of mind as we move through.

Merchandizing and the unlock there, we've heard a lot about channels, we've heard a lot about geographies, we've heard a lot about expansion. It is really important that we continue to meet the consumer where they want us, and when they want us, that consumer decision journey is very short as the work shows us. So that consistency in that sharp point of merchandizing will continue to be an unlock for us. And then, finally, we're distorting for the highest ROI. You saw training and running becoming the biggest pieces.they're the biggest opportunities. They create those biggest emotional connections. So we have a balanced approach to what we're trying to do.

I want to thank you guys for your time this morning. We're going to break for lunch. After that, my teams are broken up in the rooms. You're going to get products and deep-dives on each of those four big categories. I really encourage you guys to like get in there, touch, feel and experience the physical expression of our brand.

Thank you guys so much and I'll see you after lunch.

Unverified Participant

Hello, welcome back everyone. Hope you guys enjoyed lunch in the product demonstrations. It's been a long day with a pretty compact schedule, so I appreciate you helping us drive to the finish.

Now we've run through product, story, service, and team, you should have a really good sense of the confidence and balance we have in our strategy moving forward. And with that my role is to wrap it all up for a long-term financial model, operating principles and plan that will service the backbone of how we will deliver to our consumers, customers, and shareholders in our next chapter.

But before I jump into the long-term view let's touch on2018 outlook to wrap up what becomes the base year of our 2023 plan. Here are some of the key elements of the 2018 outlook we provided back on October 30.

Based on our updated visibility with how we expect to finish 2018 our confidence continues to build. And thus we are updating four of these elements starting with adjusted gross margin, where we are now quantifying our previous slight improvement to meet up about 20 to 30 basis points. This flows through to lift the bottom of our previous range and thus tighten our adjusted operating income outlook range to $160 million to $165 million, which when taken through to the bottom line puts us at an expected $0.21 to $0.22 of adjusted diluted EPS for 2018.

And finally in the spirit of continued better inventory management we're now expecting our yearend inventory to be down at a mid-single digit rate. So continued strong progress there. Based on the transformational work we've done this year which included a fairly significant transformational work we've done this year which included a fairly significant inventory work through. I tell you that we're particularly proud of being able to do this and still deliver gross margin expansion a testament to the brand strength even amid some challenges.

Now with that box checked, let's talk about what really excites me and that's our future. After six-and-a-half hours of business unit and product presentations highlighting our depth and passion it's time to bring it all home with our consolidated long-term financial model, so you can understand how we see the business developing over the long run. I know it's been a long day, so let's get right to the punch line. And with that I'll start with a single percentage 40%.

A very strong percentage growth from particularly any financial metric. So, what does this represent? 40% is our expected EPS CAGR over our five-year plan, so that sink in a little, 40% EPS CAGR. But the punch line doesn't just stop with the P&L. So here's another number 20% as we work through the last year of this Protect This House chapter and then drive into performing with balance period. Our goal is financial and operating balance. Balance between our income statement our balance sheet and our cash flow. Ultimately performing together to drive targeted post-tax return on invested capital of 20% or more. I don't know about you but a 40% EPS CAGR coupled with a 20% ROIC is nicely balanced.

Now before taking you through the components of how we arrive at these targets, it's important to start
with our operating principles and talking about what they are and how they will serve as guardrails to ensure that we deliver consistency and predictability during this period. As we work through our updated long-term plan, these are the main areas that we've anchored our operating principles around gross margin, SG&A, operating margin, inventory, growth, capital expenditures and operating cash flows.

Our first principle is balanced gross margin expansion. Perhaps one of the most highly correlated valuation metrics in our space relative to the supply chain efficiency, protecting premium brand positioning and how effectively we get product to market. Next is SG&A, and as we reviewed here today in the get big fast chapter, we built an infrastructure and invested toward being a much larger company. So increasing our discipline now with a prioritization and the balance among brand, innovation, International and DTC must be an alignment to deliver consistency across our five year plan.

Thus we plan to keep SG&A growth prudently below revenue growth each year over the perform with balance chapter. Relative to operating margin, we believe gross margin improvements, smart SG&A leverage when combined will reasonably drive our operating margin to 10% or better during this period, which I'll touch on a little bit more later. Relative to inventory, leveraging or re-engineer go-to market, supply chain initiatives and improve service levels along with company-wide discipline. We will be centered in a goal of keeping annual inventory growth on average at or below 50% of revenue growth and that's ultimately driving to a 3.25 turn or better

when calculated on a 5 point basis.

Next is strategically prioritizing our CapEx spending to stay within 3% to 5% of revenue each year. And ultimately driving annual cash flow from operations at a mid to high-single digit percentage of revenue. Together, we believe these principles combine to drive our targeted 40% five year EPS CAGR and 20% or more and post-tax return on invested capital.

Now, let's unpack the P&L components a little more for you starting with revenue. But in order to understand our revenue path, let's look at the different chapters of our story. We are now two years into our transformational efforts and believe we have one more year before we begin to truly and fully operate within the different frameworks and structures. We have been putting in place. From systems to our go-to-market construct along with our category structure.

During this Protect This House chapter, we anticipate delivering a low to mid-single digit revenue CAGR. As we move into our Perform With Balance chapter, we expect to drive a higher revenue CAGR in the mid to high-single digits. These expectations are built on the regional channel and product strategies you heard earlier today. And by 2023, we believe we'll be able to deliver a low-double digit revenue growth rate.

Now, clicking further down into revenue by region. Given the long-term market opportunity around the focused performer, our focus in North America will be concentrated on maintaining and driving more full price premium revenue with our wholesale customers and through our own DTC expansion.

and driving more full price premium revenue with our wholesale customers and through our own DTC expansion. Internationally, we are driving toward the day when the business becomes larger than North America. Over the next five years, we expect to make good progress toward that goal, reaching approximately 42% of the total business by 2023. Which is more than doubling its current size as the strategies you heard earlier today take hold in our different markets and regions around the world.

And then Connected Fitness, as Paul mentioned, we expect this business will continue to grow at a steady rate with the expectation that much of the work that this team is doing is showing up in other parts of our business.

Now let's move on a channel, we expect wholesale will become slightly smaller as a percentage of the business, while still adding approximately $1 billion in revenue. We will look to win with the winners in each market and grow our premium brand. While better managing our inventories resulting in lower planned to off price partner sales as a percentage of our business moving forward. We expect DTC will continue to grow at a steady rate from 35% of our sales today to nearly 40% and remain the best place for us to really showcase Under Armor brand storytelling as well as capitalize on the opportunity to drive our footwear and women's businesses.

Within digital, we continue to invest as the world moves online and we build our presence. Within retail, we are expanding our full price concepts globally including in North America and please keep in mind that the majority of our international doors are run by partners and thus sit in our wholesale revenue numbers.

However, blended together in a store account basis, meaning our owned and operated stores along with the mono-branded partner stores globally we expect to reach a combined total of 2,600 doors by 2023 with the majority being partnered doors.

Now let's move on to splits by product. You heard Kevin 00:10:07 talk about our expectations within our categories, from a product perspective it means apparel should continue to be the largest part of our business. And footwear is expected to reach approximately 25% of our sales as we continue to build out this business to an even greater global reach.

As we look forward the footwear expectations are based on taking the learnings from our rapid growth to our first billion and ensuring we deliver the right amount of innovative product to the market with the best segmentation and at the right price to the value.

As you saw in all of our category breakouts, the footwear that is coming in 2019 is better and more differentiated than anything we have ever had before. Our disciplined approach to volume management, cadence of launches and SKU rationalization will ensure that we grow our penetration at a pace that we believe is achievable.

While protecting and building a premium footwear brand and accessories is expected to stay around 8% of the business which we believe is a reasonable mix over the long-term. Now let's move on to gross margin. As we look out over the next five years there are some larger drivers that make up the majority of our expected gross margin improvements and offsets, relative to mix impacts we look at it from a channel, product and region perspective. With two other main drivers being supply chain initiatives and pricing strategies and while we have many other puts and takes like airfreight and FX for purposes of future modeling we assume those to be relatively flat in terms of impact. So let's dive a little deeper into each driver starting with channel mix. We're lower plan sales to off price partners due to our more disciplined planning and inventory management as well as DTC continuing to index higher as a percentage of the overall business to nearly 40% by 2023 are each expected to drive gross margin benefits over the long term.

From a regional perspective, as you heard from Jason and Kristina, Asia Pacific continues to deliver the highest revenue growth rates and when coupled with being our highest gross margin region, we expect Asia Pacific to drive a healthy consolidated gross margin benefit each year. Within product mix, footwear growth is expected to outpace apparel and accessories, and while our footwear specific gross margin rate segmentation and price points continue to improve, footwear margins are still lower than the other categories. So it remains a long term headwind against the consolidated average. On the supply chain front, we have multiple drivers primarily positive. First, vendor and cost optimization. As Collin mentioned we continue to negotiate better costing in the myths of consolidating our vendor base and reducing product complexity, which we believe collectively will drive meaningful costing improvements when larger benefits in the earlier years and tempered benefits in the later years. Second, SKU count and related volume. We are rationalizing our SKUs and increase – with increased discipline around minimum margin targets and other requirements, which is also driving higher volume with the SKUs that remain

And we're also continuing to grow as a company. Thus, the combined per SKU volume increases are helping with costing while we are also removing lower margin SKUs. We do believe these meaningful supply chain benefits will be slightly offset by rising labor and raw material costs yet the benefits are expect to significantly outweigh those pressures.

And lastly, pricing strategies. In this respect, we plan to better use data and deeper analytics to inform our global pricing architecture to ensure we deliver the right value to the consumer across our product segmentation. Within this area, we believe there is an opportunity for us to flex our pricing to drive higher margin rates. And in some instances, we may even lower a few prices where we can drive more volume and still return a solid gross margin and state premium. And finally, as you have started to see in 2018 with reduced promotions while still delivering on the top-line, we are building more muscle around exactly how and when to strategically promote or discount and enabling us to flex to be nimble and handle the changing marketplace dynamics.

As we bring all this together, we expect to deliver 275 basis points to 300 basis points of gross margin expansion over the five year period ultimately reaching into the low 48% range by 2023 at which point many of the more near to mid-term benefits around channel mix, supply chain initiatives should start to normalize.

Now, moving on to our operating expenses, restructuring plans and expectations around investment.

In 2017 and 2018 we executed two restructuring plans that were holistically geared at addressing every area of our business, including store leases, marketing contracts, office space, distribution center space, intangible assets inventory and yes workforce reductions.

Certainly, some tough decisions along the way. But ones that ultimately enable us to operate with a more efficient cost structure while still investing to support our brand. All in, these plans are approaching $350 million in combined restructuring impairment charges. As a result, we expect approximately $200 million in average annual cost savings from this work, most of which is focused on SG&A. To be clear, this is the total expected annual savings from the efforts taken through both restructuring plans prior to reflecting our expectations around what we will invest back into the business to continue to support and drive our long-term growth. Also keep in mind that some of the benefits from the 2017 restructuring plan have already benefited this 2018 baseline year.

Now let's go a little deeper into the expected savings and what it means for us over the next five years. To break down this 200 million in savings from a utilization perspective we intend to reinvest some of those dollars as well as pass some back through the P&L in terms of SG&A leverage.

First, of the money saved, we expect to reinvest approximately $50 million of marketing related savings straight back into higher return marketing to continue to invest in the brand and support the strategies that Attica and Jim outlined earlier. Second, about $75 million will be strategically and methodically reinvested back into key areas of the business including international expansion, DTC, digital, innovation and footwear. Which leaves about $75 million a year which we expect will provide improved leveraging with higher benefit coming in 2020 and beyond.

As some of these items are related to negotiate long-term contracts, facilities or leases some of which continue to run through a portion of or all of 2019 until final termination. So what does that mean for our selling, general and administrative expenses going forward. The next five years will be a continuous balance between leveraging in some larger areas such as head count, depreciation and other SG&A while also investing in key areas of business to support our strategic long term opportunities including direct-to-consumer and international growth. Within head count we are continuing to work on our operating model evolution and believe the workforce reductions when coupled with improved processes and discipline will enable us to reasonably leverage head count costs in the coming years. And we expect depreciation will continue de-leverage through 2019 as the depreciation from higher CapEx spending from the get big fast chapter finally works its way through our P&L, followed by expected depreciation leverage in 2020 and beyond as the more recent success in our CapEx planning and prioritization processes take hold.

In addition based on our tighter budgeting and allocation processes we expect many of the other SG&A areas outside of those noted here will leverage through the five year plan. However, these multiple areas of developing leverage will be partially offset by continued investments and international expansion and related distribution capabilities along with investments in our DTC businesses, including our Fifth Avenue, Pinnacle brand expression store. And to clarify timing in our Fifth Avenue store, we are looking forward to finally taking possession during the first half of 2020 with the expectation of opening in the first half of 2021. And keep in mind that while driving growth in the DTC channel generally comes with higher SG&A costs creating some SG&A a deleverage pressure. It also provides gross margin tailwinds and thus balancing out when you take it down through to operating margin.

And finally relative to marketing, as I previously mentioned a portion of our restructuring efforts were within marketing as we evaluated all of our assets and look to optimize our portfolio and return on investment. That said, we maintain a strong belief and desire to invest in the brand while balancing the need to drive improved profitability. And therefore we intend to continue a fairly disciplined approach towards spending and marketing. Investing in roughly 10% to 12% of revenue with the desire to move towards the higher end of that range as we move through the five-year plan. Also please keep in mind that although we plan total marketing spend within this range, the additional marking funds freed up through our restructuring efforts combined with deeper return on marketing investment analyses should collectively provide higher return on that same 10% to 12% investment level in the long run.

All in we expect to yield over 400 basis points of SG&A leverage over the next five years. Taken in total,
We expect improving revenue trajectory, gross margin improvements and restructuring benefits along with SG&A leveraging will drive us toward a 10% or better operating margin by 2023. However, although operating margins are important overall EPS growth is ultimately more important.

Therefore, as we have been driving through this three year operational transformation, we are also focusing our tax rate another critical component of EPS growth. As I mentioned on multiple prior earnings calls, our global effective tax rate improvement is directly correlated with increased international profitability, and you saw the increasing international profitability earlier today. In addition, we need to constantly ensure we are staying ahead of developing tax regulations in all of the countries with which we operate.

Based on our expected mix of increasing profitability by country around the world, coupled with sound and balanced tax planning strategies, we expect consolidated tax rates to be in the low 20% range over the next five years. Our revenue growth coupled with operating margin improvements and optimize tax rates ultimately combined to drive our targeted 40% five year EPS CAGR.

In addition to EPS improvement, we have also been very focused on improving long-term balance sheet and cash flows, and ultimately our return on invested capital, therefore fortifying our foundation for long-term healthy growth. Based on the combination of improved profitability and better working capital management, especially in the area of continued inventory improvements, we expect to generate over $2.5 billion in cumulative cash flow from operations thus approaching $700 million in annual cash flows from operations by 2023 Inventory is clearly a huge component of this. I previously mentioned our goal was to manage annual inventory growth on average at or below 50% of revenue growth during this five year period and ultimately drive to a 3.5 turn or better. Our confidence in driving this level of cash from operations lies within the GTM and supply chain improvements. We have already achieved and those still underway along with increased focus and discipline in all aspects of our working capital.

Now you may be asking what we intend to do with the cash that we're going to be generating. Some of the operating cash generated will be reinvested in CapEx folks and higher return areas such as international and global DTC expansion along with continued build out of our global ERP infrastructure in Asia-Pacific and Latin America to finish out the world. In addition, we will continually review our capital structure and debt portfolio and evaluate opportunities to further improve our leverage ratio as fostering and maintaining an investment grade rating is important to us. And lastly, we want to build reserves to better enable us to be nimble and opportunistic relative to initiatives and opportunities that align with our long term strategies. That wraps-up our five year financial outlook and the various building blocks we believe will drive us to a low double-digit revenue growth rate by 2023 a 275 basis point to 300 basis point improvement in gross margin approaching 48% or north of 48% and approximate 38% SG&A to revenue ratio a low double-digit operating margin by 2023 and approximate 40%
EPS, five year CAGR and finally a 20% ROIC rate, that concludes our five year look, but before we wrap up our financial discussion, we want to provide an initial outlook for full year 2019 which is also last year of our Protect This House chapter and the first year of our five year plan.

For 2019 top line fairly consistent within this Protect This House, we expect revenue growth in the 3% to 4% range with flattish growth in North America and low double-digit growth internationally led by Asia-Pacific. Although our expected 2019 international growth will moderate some in previous years, we've learned a lot from the last two years in North America. And thus, we are prudently reassessing each international market during this third year of the Protect This House chapter to ensure we remain premium protect the brand and keep inventory levels and check.

As such, we are strategically managing our marketplace by controlling our distribution expansion and fostering efficient and balanced sell-in and sell-through as we drive into the perform with balanced chapter of 2020 and beyond. From a gross margin perspective, we expect 60 basis points to 80 basis points of improvement largely driven by lower year-over-year sales to the off-price channel along with improved product costing and an increasing mix of DTC revenue.

Within SG&A we're only expecting very minor leveraging in 2019 and some of the benefits from the 2018 restructuring plan, don't manifest until 2020 as I noted earlier. That takes us to an expected operating income range of $210 to $230 million.expected operating income range of $210 million to $230 million. When coupled with an expected tax rate in the range of 19% to 22%, we're expecting diluted earnings per share in the range of $0.31 to $0.33. In addition, we also anticipate capital expenditures of approximately $210 million. We look forward to providing more color on 2019 during our next earnings call in February.

And with that, I'm closing out the financial section of the day. And what a day it's been. Certainly a long journey and hopefully one that you'd agree we provided transparency into what we've learned. And the structure, process and strategies we plan to employ to demonstrate our command of the business and how we plan to drive toward each of our future targets. To round it out, I'll start first by saying Under Armor is a growth company with a powerful brand, greatly enhanced discipline, and a global culture of teammates who give their all in making you better. And yes, we are the best at getting better.

With that said on this last slide, I'll highlight what the finance organization's goal is, which is to deliver sustainable, profitable growth and returns to build and increase shareholder value. Why do we believe in our ability to do this? Why certainly can't show every reasons to believe slide from earlier today all at once? But to summarize them, there are really five main reasons. First and foremost, Under Armor was, is and will remain an athletic performance company. There's no grey area in our belief and our efforts are centered in this identify. And we steadfastly believe that this will ultimately prove to be one of our greatest long-term strengths.

As you've heard throughout our presentations today it starts and ends with product and the experiences that bind the physics with the emotions. Second, with the vast majority of the critical mass of research and analysis already completed, and our ability to concentrate on the unique needs of the focused performer, we've laid out how we will capitalize on the intersection of the world's largest health and fitness ecosystem through rapidly evolving consumer activations.

Third while we've scaled nicely and continue to operate with discipline relative to the brand building, we're still barely scratching the surface on the white space opportunities ahead in our international DTC and footwear and women's businesses. So, with every new dollar to spend, we'll ensure we are distorting properly to the areas with the highest rates of return and potential.

Fourth with an emphasis on the focused performer and our stated goal of protecting this house, we will remain vigilant with our existing business partners and maintain high levels of scrutiny with those we chose to do business with. Striking that balance will be our continued commitment to using Under Armour DTC including physical locations and digital presence to ensure that consumers get the most premium experience whenever and wherever they engage our brand.

And finally that takes us back to my goal. Driving shareholder return, fostered by our targeted 40% five-year EPSCAGR and ROIC of 20% or more. Along with our multi-layered deeply disciplined plan to deliver on what Patrick discussed earlier today, consistency, credibility and confidence.

And with that, I thank you for your time and this brings us to the end of our prepared remarks. So now, we'll take a few minutes to get set up for Q&A. Thank you.

QUESTION AND ANSWER SECTION

[Music] (00:32:04 to 00:32:37)

Unverified Participant

Great. Thank you all for taking the time today. I think we had a lot of fun and hopefully we got to chance to see of the depth and the breadth of the team that we have here at Under Armour. So with that, Lance and Kerry have microphones and maybe we'll just pass around, so if you have a question, go ahead and raise your hand and I will get in and see if we can short time that too. So and then, after we get to one, let's make sure we're rotating the mics, [indiscernible] don't have any down time.

<Q>: [indiscernible]

<A>: Great. We can't see. So in the back, hi, there.

<Q – John Kernan>: Yeah, great. John Kernan from Baird. I want to ask a little bit about the bigger picture opportunity you see for the brand as you go through the transformation. I think Dave even mentioning you know some acceleration of the top line out to 2023 implies you still see a big opportunity, despite the discipline that you've talked about. So could you maybe just give a little more color on what you see as the overall opportunity and maybe within the next five years

So could you maybe just give a little more color on what you see is the overall opportunity and maybe within the next five years. What's holding you back from getting to some of those faster growth rates that you're looking at longer term?

<A>: I'll start out with that. I mean I think a couple of things to think about is when you look at that longer term growth rate, it's probably hard to see unless you see all the underlying numbers that we do the dramatic impact that Asia Pacific has and that continuing growth rate and that becoming a bigger and bigger part of our business, coupled with North America getting a lot healthier and returning to growth. So those combine aspects really help with that long term. And when you think about you know the actual growth rate could we go faster. We've talked about this I think on other earnings calls as well. We absolutely could go faster, but I think you know we really want to be able to say premium. We want to be able to control that distribution. We want to make sure we're with the right partners. We want to make sure that we don't allow the distribution to get ahead of the brand and really do it in a very smart methodical way.

I'll let Kevin or Patrick add to that, but I think it's really about controlling our destiny and making sure we don't let anything get ahead of us again.

<A>: Yeah. I think you know there are definitely areas of opportunity both geographically as Dave said and also in the categories. But one of the things that we are doing as we kind of finish the play here on this protect this house period is making sure we got our muscles all tuned and we got everything working in the machine. And we're also – we've also got a lot of stuff in the pipeline as we think about product and as we're strengthening some of these categories. So it's just playing the play really and making sure we're doing it in a thoughtful way learning from the things that we've done in the past applying that to this new muscle and making sure that we're being thoughtful about building a long-term eternal if you'd like brand right for the future that's sustainable.

<A>: Maybe because I think it's good it sort of gives us the ability to just anchor of the day of how do we see the world. But we learned a lot of lessons in the last couple of years and we believe that made us much smarter. And part of that transformation has been going to the global operating model of what it truly means to think about four distinct regions. And so the lessons learned in the states are something what apply in other places. And so whether it's thinking about the responsibility and being efficient with inventory thinking about things like an ERP upgrade in Asia next year thinking about many of those things is that we're certainly playing the long game with the brand, hopefully you had a chance to see that demonstrated today with walking around.

And as Patrick says like there's a lot of new muscle in an industry that was coming from a 22 month calendar to now a 17 month calendar we haven't see that those plays play out yet. And so what we see is that as we light things up as we create energy around products that we put into the market you watch those things like HOVR evaporate. You see things like our Forge product, you see things like the A$AP collaboration. So you see things like the [ph] Kery product which we are launching again tonight. And so that consistent flow of energy that will be driving as a company and as a brand is something where you know learning how to do that on a consistent basis with the aspiration of that being not just one drop a month or every couple of weeks but thinking about how we're doing 52 drops a year and ideally where we're thinking about a company that's doing that almost every single day of bringing energy and excitement for the consumer.

So we have the engine and we also have the creativity of a company that knows how to do what they do in an exciting way to bring consumers and make them covet and love and desire the things that we build for them.

<Q – Matthew McClintock>: Hi. Matthew McClintock of Barclays. So just in North America the low single digits CAGR going forward. If I recall that seems to be a little bit slower than the overall industry is expected to grow over those next several years. So do you expect the industry itself to slow or why would you lose market share given the dramatic improvements in product, process, and everything else that we've seen today. That's my first question.
<A>: Do you have a second one or do you want me to answer your first one?

<Q>: I'll do the second one real fast. Just you did mention Tokyo 2020 and just given your great relationship with [ph] Domain, I was wondering how you think about using that event to Springboard Armor accelerate into Asia?

<A>: I'll start and maybe Kevin you want to weigh in on Tokyo. I think, again going back to the presentation that Jason LaRose had earlier present on North America. The situation we're currently in right as we're still weaning ourselves off a bit of a tail of some of that off price. And as we shrink that we're going to be growing the premium full price business and it takes a little bit of time. That's really what it's all about and making sure that we're doing that in a very deliberate way is our intent. So it's really shifting the dollars. And like Jason said, we're currently investing into weighing ourselves off that train and moving into a greener pastures. It's going to take a little bit of time, but eventually we believe we will accelerate in the U.S. again.

<A>: But, to be clear this is an American brand. This is our home market. We expect to win here in this market also. And the idea of growing forward it does mean making sure that we're growing. We're growing in an incredibly healthy way where we're driving and really pushing a pull model instead of a push model on the marketplace and so, we want to control that. And we talk about 3% to 5% consolidation with the retail base is one of the things we're contemplating as well as making sure that this is all healthy full price and premium sales. So we expect to grow in the premium places of distribution or industry and you'll see that happen. But, we're also going to do it by managing inventory and so, this isn't a take-off the upside of growth for us, but, it's absolutely to put a barometer on it and saying, how do we make sure that we're managing it the right way and putting ourselves to get through the next 12 months and the continue to make those modifications and adjustment as what the market is asking and allowing us to do. So the U.S. is mission critical to us winning and you'll see us do that, but you know while we've spent a lot of time really investing in and building "protecting our house" one thing we're also hyper aware of is the surrounding neighborhood. And so we want to make sure that we are bulletproof in that perspective and I think that with Jason's leadership and Patrik and the team that we have in place, we feel incredibly confident about what that means.

<Q>: Okay.

<A>: So 2020 is a massive opportunity for us. Dome is our first international market that we entered our partnership there is extraordinary, the size of the business is something which is really a market leader. And again with that positioning of premium performance and so we're not unveiling any of those plans right now, but were certainly using that as a launching pad for us for Asia-Pacific as a whole and really to be able to drive the region down because then as Jason and Archer said following up what's coming in Beijing and 2022 as well. And then you've got to see just some of the strength of the leadership that we have from Christina May there as well. So we've got an incredibly I think powerful team to take advantage of what's to come. The one thing is that this is a global brand you know and I think letting the ability for the regional markets to really just they and start becoming known of how we're running this play, because we know how to make shorts, we know how to make shoes, and we know how to sell things to market, but doing it with the efficiency that we're putting in place is something where you'll see the GTM which is inclusive of getting behind things like Olympics 2020 where we can have a monumental moment for the brand that it's not just a one off of a product or a one off of the marketing, but it's all of that collaboration coming together of supply chain strategy, product marketing sales all having an event approach. And so as I said when I said 52 drops a year imagine now that all that coordinationthat comes together which gets it away from the forces of will the forces of personality, the sort of one off way the business was built to begin with. And so we still have that lightning and that spark, but now we have an underlying process that we can actually do it on a repeatable basis.

<Q>: Hety, guys. Michael Binetti with Credit Suisse Thanks for the detail today. For – in the third quarter when we looked at the report the direct-to-consumer revenue and store growth rate suggests that same-store sales were fairly negative. I can think of a few dynamics that would explain that. But since it's a big piece of your five year revenue growth story you told us you plan to add stores, you showed us that you're planning inventory up next year. Would you mind just adding some perspective on the recent trends and how you see that building back to growth over the next four quarters?

<A>: Yeah, I mean direct-to-consumer again for us is also going to be a healthy balance between retail stores and e-com stores. The retail stores are going to be a little bit more on the brand house side or the full price side. Even moving that forward significantly here in North America with the new commercial concepts that we're working on so there is a combination going on there when you think about internationally there's going to be a big combination there that's going to be some of it – that's going to be same-store growth. But there's also going to be a lot of new doors, I mean if you think about all the doors that we're going to be adding in the Asia-Pacific region, that's fairly significant. Now that usually comes to our wholesale revenue, we don't have as many of our owned and operated there. But in each of the regions there's going to be a healthy mix there. So again it is an area where we're going to continue to invest more relative to the technology and the infrastructure and the connection with connected fitness on the e-com side. But then also continue to develop our global retail store format and approach some of which you saw last night over in Harbury East . So we're excited about what that means for us going forward.

<Q>: I think it's great point. 1,100-ish stores today going to 2,600-ish stores by 2023 in the retail conceptto 2,600 stores by 2023 and the retail concept you got to see yesterday with the freshness, the learnings that we've been able to apply to-date and that is not our official concept, as we say that's a living retail lab store, but it will give us civility to excite and really get close to the consumer in a way to story tell. I don't think any of you as much as you know that Under Armour always say we're a performance company of just how much science is involved in the products that we build. And we think that that positioning is so unique and that is -- Patrick as consistently said may be perceived as a weakness today but will prove to be our long-term greatest strength and so we are anchored down and we call and say we're running the play of focused performer. It's something where we could expect to create a destination from a retail standpoint that will be incredibly consistent that bull's eye will be in the center and from that it will give us the ability to continue to expand and open the aperture of the appetite of who's interested in our brand and how they're going -- we're going to communicate and be able to interact with that consumer as well and then Fifth Avenue is going to be amazing as well.

<Q>: Great, thanks. Erinn Murphy of Piper Jaffray. Two questions, first on the Gen C consumer can you just speak to what your view is of the relevance of the Under Armour brand today and then as you think about the you know kind of focus performer and some of the things we saw with core sports. How can you accelerate that ramp with that consumer?

And then I guess secondly with all of the longer-term metrics any changes to how you're thinking about executive compensation, anything that you're changing in terms of the benchmarks there. Thank you.

<A>: So maybe I'll take the consumer question first. I think the difference between how we look at and think about the consumer in the space and that more traditional generation this or that is really the mindset of this consumer. So that that mindset goes across genders, it goes across age, demographics. It really is coming back to what Kevin Eskridge talked about earlier. The more we learn about this consumer and we're learning very fast, the more we understand that it truly transcends a specific generationWhat we need to understand though is how to speak to these different slices of the market if you like. We know, for example, through the work that Paul and his team is doing and Jim 00:45:27 around the decision journey that the consumer takes that it differs. If you're under 25 year old – 25 years old then – and you're a focused performer we know for example that one of three journeys is going to start on Instagram. So we need to do a better job there. So it becomes more about truly understanding the focused performer and how that consumer moves through their day and their journey as they want to interact and get into an activity and starts to consider that activity. One thing we didn't talk so much about today is that we actually also see the consumer no matter what age or gender is the fact that they're actually making the decisions fairly close to purchase. Those are – those are – that's why another kind of data point that we have. So we're learning – we're continuing to learn. So I think, that's the beauty of what we have now. That understanding of the consumer 360 degrees and getting data real time and then applying that data into our go to market to create the right product or message or touch point or content for the consumer at the right point in time. But I would also say that you know we're still caught kind of in a calendar trap right. I mean what we currently see and what you guys saw at the store last night was created you know 24 months ago, right, to some extent. So you know to actually do these reengineering projects with this kind of size and to have that full – full flush through if you like in terms of both the muscle – the muscle that needs to be trained as well as the product that needs to be created based on the new insight that we're just starting to receive. It's going to take a little while before all of that actually hits the market and we can do what Kevin laid out as the vision here for you guys in terms of those you know very, very fastdrops and that's why you know this is a – it is a journey, and will be a journey and that's we decided today as we explain this to you to really paint this picture of these chapters, because do we want to move faster sometimes, sure we do, but it takes time actually because of some of the constraints that we have actually being in in a calendar and that's something that as we've been talking about today we've been working on so.

<A>: And before let me just add to that. The Piper Jaffray study is a – it's a great moment and time for us to benchmark and say how are we, where we and you know we see a lot of things and the one thing that we do see is that there is a stabilization, we talk about the stabilization of 2017 and 2018 with our brand. This is not a brand that's going backwards you know and we can sort of debate where we are, but we look forward I think that's what leads to the statement of sports being a great business to be in, is that as the one of the top athletic brands in the world you know it gives us an amazing amount of position. And what we find is again, as we do put the right product in the market you watch it go. And so the emphasis that we have is that, what is the positioning where

Under Armour has the right to sell. We can sell product that is basic and when we say basic product it is better than others and because the opening price point is higher than others and it also has an expectation of being better, but we can truly segment our entire brand good, better, best and that is a really unique positioning, but I think sports underwrites for us and it is things like the World Heavyweight Champion Anthony Joshua wearing our product. It is things like the Notre Dame Fighting Irish playing in the BCS Championship playoff. It is things like Stephen Curry dropping a shoe tonight or Joel and beating the impact. So when you see that relationship of sport, I believe it gives us a grounding which is unique which allows us to have a conversation with this millennial consumer today and we'll continue to iterate that conversation because we have the depth of things like a $250 million ecosystem to lean into as well as the insights that are building through our company of putting consumer at the center of everything we do through the GTM process. So I think it's a lot of – a lot of smarts with a lot of grounding, with a lot of history that we have, and we're very fortunate to be in the position we are as one of these type of – one of the top athletic brands and so you'll see us amplify that as best we can.

<A>: And I guess relative to the last point of your question on incentive comp, the largest portion of our incentive comp is based on operating income, because we feel that's the piece that the most of the employee base can really all be part of driving. But it has evolved and so there are also portions that are tied to a lot of the different metrics that I put up there. There are some that are tied to revenue growth some that are tied to gross profit, some that are tied to inventory improvement et cetera. But the larger portion is still tied to operating income and we're going to continue to evolve and operate you know based on what we see in the strategy of the company going forward. So, we'll continue to look at that for 2019 and beyond but that's where we are right now.

<Q>: Great. Great. Thank you. Jay Sole, UBS. First, thank you for a great day, you know the 2015 event was great. And I think this today – day two today just shows how you all take into the next level and get better every time.

<A>: Thank you, Jay.

<Q>: My question is about how you prioritize some of the different parts of the top line plan you know specifically you mentioned a couple of times reducing sales to the off price channel. Is that something that is a priority to where it's – it's going to happen no matter what but – or is it something where it's going to happen as long as the full price sales kind of meet your expectations and if they don't maybe you would kind of offset by driving some more off price growth and you plan right now?

<A>: No, I mean it's really a combination of two things and you can jump in afterwards too. But one is the simple desire to stay as premium as possible and that's something that's not going to change. And so we want to stay as a higher percentage of premium, and a lower percentage of off price channel sales. But the second thing that correlates is that [Technical Difficulty] (00:51:08) That correlates is that we made such a significant structure [audio gap] (00:51:17- 00:51:17).

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All right. There we go. In our supply chain developments and initiatives that hopefully we will not be generating that much excess anymore that would actually normally go to that off price channel. So we're getting much, much tighter and overall how we plan the business, how we buy, the timing the inventory comes in, our ability to be able to track sell-in and sell-through, and the overall health of the floors of our retail partners. So hopefully we don't put ourselves into a position that we don't even have enough access to be able to increase that percentage again. So it's a combination of those two things that should really keep us going in the right direction on that front.

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Yeah. One of the things we didn't talk so much about today. It's a good thing you brought it up Dave. It's really around the planning aspect of our business too, right. I mean, having too much inventory is a consequence of some of the things that you have done, right. So we think very differently about planning the business today and part of that is because we're able to. Collin Brown talked about how we're shrinking our lead times for example. So one of the effects of that is that we're not actually able to plan our business and place orders based on orders not based on forecast and that ultimately drives more precision in your planning process as well. So there's a lot of other fundamentals that will allow us to become more precise in how we do our business. And the other one is we're also thinking differently about how we plan the business in the customer space, in our wholesale customer space in terms of really thinking more about sell-through than sell-in, and thinking about that holistically. So there's a lot of different things that we're doing in engineering on both sides of the coin to make sure that we're driving and a better managed inventory position, but as it relates to the full price or not, we're a premium brand.

relates to the full price or not, we're a premium brand. We're going to drive more premium business going forward. So the fact that we're going to drive the off-price channel down, that's non-negotiable.

<A>: And the key is we can't tell you we're premium, the market needs to tell us as we show them and so that is the focus of everything that we'll be doing and again that is -- it is the things we do versus the things we say. And I think that's where we laid out a pretty good plan, I think you get a chance to see a lot of the innovation and energy that we have and that coupled with the storytelling that we'll have as a brand going forward that will ensure that path for us.

<A>: I think you know the best we have done these kind of end of every presentation these reasons to believe if for nothing else the one thing that you can take away I think from that part of it as it relates to product is somebody who'd told me a year ago that Under Armour could breakthrough and running I would have doubted that statement. But actually what we did was we took all of the learning that we've done through our digital work. We decided we were going to shoot for this focused performer, we said we were going to do it digitally 100 -- 360 degrees. We launched a product in February of 2018 and we sold through extremely well. It was an orchestrated play. We had allocated product. We had a segmented approach. We did it globally and our sell-throughs were amazing across the entire world no matter whether you live in China, South America, Europe or North America. So the point I'm trying to make is when Under Armour makes great product with the SPF formula of style, performance, fit and function the consumer is there for us. So we believe that with this stuff that you guys have seen today that's coming around the corner, we're going to do more of that in the future

<A>: I got one over here.

<Q>: Hi, there. Alex Walvis with Goldman Sachs. I wondered the first question if you could help us to bridge from the high-single-digit growth rate that you're expecting in 2020
to 2023 and to the low-double-digit growth rate thereafter. Is it a function of 2023 still seeing some of the pullback from off price and this other wholesale area and that goes away from 2023 onwards, or is it more about higher growth channels and categories being a bigger piece of your business from 2023 onwards, or is it something else that's helping to drive that?

<A>: While all these are combination of those things. And the other thing you know as you grow your business in international, you need to also grow your brand awareness at a certain clip as well. So you know we're still as you've heard today, we're just about to enter into India right, where we're very nascent in China. We have a big business in Japan, but we're almost doing no direct consumer business there. There are many other countries in Europe where we're actually very small and we believe we have great runway, our sell-throughs are great. So I think you know it's about acceleration in many different places that takes time to build too, if you do it right. So, you know we're patient these days.

<Q>: Thank you. And then a quick second question was on the Athletic Specialty market in North America, and you gave some helpful details about how that had decreased from 36% of the market to 32%. Where are you planning for that to go in the future and how are you planning a business around it?

<A>: So this is a great opportunity for me to allow Jason Rose to get up and answer a question I think. Jason, you want to take a stab at that?

<A>: Good. Hear me? Truman, tell him if I'm in the right spot. I think the – maybe overarching answer is, we're trying to follow consumer and let them lead us as opposed to say, we have to have the exact right answer about what that's going to look like. There was a time when our distribution wasn't very diversified. And so, if something happen in a particular channel and we were over underweighted there, we were really going to be in a tougher spot to follow the consumer around. I don't think that's where we are anymore. Obviously we see some contraction, we've seen it over the last four or five years and we still have some partners out there who we're keeping an eye on from a Adour standpoint. But overall, I don't think it's so much about saying it's definitely going to be in one channel or another that we see some of that contraction. It's more about being prepared to follow the consumer where they want to be. And I think we're in a much better position to do that now than we were in that last chapter that we talked about earlier this morning.

<Q>: Good.

<Q>: Thanks. Simmt Seigel [ph]. Thanks guys. Great day, a lot of information. Just sticking on North America for a second, you gave -- you sliced up the revenue opportunities in very helpful ways. And we got to see a lot of innovation, we got to see some really exciting product. How do you think about units and price as you think about that revenue CAGR? And then with all the exciting opportunities both top line and the opportunities on the margin, any help on thinking through why that mid-single margin wouldn't be higher on the EBIT level?

<A>: I think as a perfect question to answer for Mr. Dave Bergman.

<A>: I'll tell you what, I'll answer the last part and then maybe I'll hand it back to Jason on the first part, but on the last part when you think about those margins from North America, probably the biggest thing to remind everybody is that right now our North America segment that we show publicly and what we spoke to today includes all of our corporate and global functional costs. So when you think about HR, accounting, finance, legal, IT, you know product category all those different global functions right now in our external segments are all part of North America. So even though North America can be improving profitability as a standalone business unit that Jason drives what we see and show externally and what we speak to as North America in total includes all those other corporate costs as well. So it's a little bit harder to move that profitability needle that much more quickly.

What I will say though is that as we move forward in 2019 we are looking to separate that out and that's a conversation that we're working through now to be able to show North America as a true standalone business unit as is the other three regions versus a corporate segment which will help with that clarity.

If you want to talk a little bit on the revenue side?

<A>: Yeah I think when we talk about units versus AUR, we are pretty transparent today that we're expecting footwear to grow two to three times faster than apparel and our AURs are obviously much higher. So we are forecasting that you know price and average price is going to drive AURs up over the course of this period. So you should expect that to be a substantial part of the growth. Obviously there's some unit movement in there as well but AURs with that mix, will certainly change for the favorable.

<A>: Will be final question.

<A>: Last question.

<Q – Omar Saad – Evercore Group LLC>: Thank you. It's Omar Saad from Evercore ISI. Two questions. Dave if you're willing to share maybe talk about on the gross margin question, where are the promotional level, what percent of the business is kind of on promotion the last 12 months. Maybe where it was four or five years ago. If possible to give us a sense of how much margin recapture is just coming from going back to be more of a full price brand.

And the second question actually is maybe a bit more on marketing. You've obviously showed us a lot today on how the team has evolved, the processes and infrastructure you've developed, new products coming down the pipeline. But I think from the consumer standpoint, one of the ways the brand has changed the most in the last couple of years is kind of the brand voice and marketing message. I know the chief marketing officer is pretty new. He's not here today. Maybe talk about, how that brand voice has evolved and what maybe some of Alessandro's plans are given his background, I think it's pretty interesting the opportunity?

Thanks.plans are given as background I think it's pretty interesting the opportunity. Thanks.

<A>: Okay. So on the first part of the question relative to the North America gross margin, as did probably many of the brands, we've talk a lot about more discounting markdowns as we kind of went through that 2017 and into 2018 period. But we more 2016, 2017 and 2018, we've talked a lot about actually starting to step back and starting to get more towards the premium brand again. And so we've talked about before that in North America we've cut back about a third of the promotional events within North America versus 2017 and that has had a nice lift on our gross margin year-over-year. And we think about 2019 and beyond, we're not assuming that that's going to change all that much from 2018, what we stepped back in 2018 we think we're at a much healthier mix of promotion and non-promotion and we don't see that as a big driving change going forward. The bigger drivers are the ones that really I mentioned before around the regional, around the supply chain initiatives, around lower off price et cetera.

<A>: Yeah, I'll start with the marketing to try to answer that for you. First of all Alessandro, it's just started as you said we're very happy to have him came from Tommy Hilfiger and it was actually based in Europe. But they run the brand more or less they are from a global perspective. He was there for 11 years previous to that spent time with [indiscernible] previous to that he was with Omega. Previous to that he was with [indiscernible] So he's a lot of global experience, a lot of experience with brands, but how we're thinking about marketing? First of all, if you go into this period of protect this house we were more quiet in 2017 in general, and there were a lot of reasons for that. We have started to ramp up that voice in the back half like Arika and Jim was talking about earlier we're doing it in a different way though.The way that we're now reaching the consumers is based on our understanding of how that consumers wants to be communicated to. So it's less of those 10 01:03:06 [indiscernible] that we used to do and we're ramping the brand, the voice of the brand in a different way and we'll continue to do that going forward.

As we turn into 2019 will actually accelerate some of that. You know Dave talked about how we're going to reallocate some of this investment that we're getting from the restructuring into you know more money into the brand, the difference now is we need to do it from a global perspective. Before we were able to spend the majority of our money on marketing just in North America going forward we need to as I know the stuff that I was talking about before as we grow our business and international that also requires investments into the markets from an international perspective. So the important way to think about it is if you put that consumer in the middle and you think about that circle of 360 degrees, what we need to do is we need to make sure that we have the right content, the right message, which should be the same message more or less as it has an impact for that consumer wherever that consumer decides to or has it where we have an opportunity to connect with our consumer going forward.

So it is different than it was two or three years ago but we are ramping and will get stronger as we go into 2019 as we're able to put more resources against it and we have stronger leadership.

<A>: Amar you've been covering us for a long time and I think for all of you here I hope you get a sense of just the evolution of the brand, the growth of the brand, the maturity of the brand. And by maturity we don't mean getting old, by maturity we mean getting wise and hopefully the way that we can apply that wisdom. So first and foremost is that the key to any brand is that you have a soul. You know there's a heart that just exists that bounces that breeze that bleeds feel. And that's what's always come through. And that has to be controlled at the center. And we're the ones and we use the phrase dictate thetempo. And so that energy of the brand is something that can never change must be concept. What's different or unique about today than even four or five years ago is when David says things of talking about pricing, is that we never needed to have segmentation differentiation. We never needed to have the pricing, but as we got large and as we got to scale, as we came through get big fast. The necessity for that meant that everything couldn't just come from one place, because the need for us to no longer as you noticed in our organization, we no longer have a head of international, i.e. we're no longer a North American Company selling stuff in other parts of the world.

We are truly working to be a global brand and so we have four regional heads that can help drive that force and make sure that we can be specific and answering to the needs of the consumer in an individual market. And be it sales or be it – be it marketing that any aspect of our company that we're coming through is truly being localized. But the vision when we say things like rallying around the focused performer, we have another saying at this company that when we get the behind things, we have a tendency to win. And I think that's what the consumer is going to feel from us now. And frankly, we could sit here and debate the focused performer you could debate lifestyle or anything else, we could put in that bull's eye whatever it was as long as we now have the entire organization that has the matrix built and that we've put the building blocks of how we're going to run the Matrix, but we haven't run the full play yet.

And so, even through this process of learning of testing of iterating, I think you're still seeing results that we're putting on the board which has a as moving forward in a positive direction. What we're setting ourselves up for is a much bigger day of a much bigger expression of what this brand has the potential to be. So, the difficult thing for as I mentioned earlier, is moving the company from a few forces of will or forces of personality or individuals that are driving things, but truly building a process in place that allows us to think about how we can scale this business to the next level.Going from where we were, which is the you know one of the few brands across that $5 billion threshold, to where we want to get to, which is ability to grow, to scale, to eventually to double the size of our business without an undefined period of time as to when we can do that of when it's right. But it's truly letting go of one rope to grab the next. And I think what you've seen from the last two years of us of our ability, our lack of fear, our strength and our boldness to make those very difficult decisions. And so, we have definitely moved to the place where we are running an operationally efficient engine, but in no way shape or form does that take away from our ability to have the energy, the thought, the passion, the love that makes it a brand, brand is everything and that's why the consumer engages and trusts us, and that's why every time they buy something that has our logo on it, they better feel like they're getting a super power. Every time they see a commercial, they should probably be a little out of breath at the end of it, like that is the brand. But as I say that, I also know that as we look at the categories where we can win and we can be successful. We want to make sure that we are listening to our consumer and we're not trying to run the play that worked in 2012 or 2014 that we are moving because we are as dynamic as the market is going to be. So when we say retail lab store, I guarantee the next store we open is not going to look anything like that, but it'll have the best of the learning's that came from the store that we opened you know here in Baltimore. And so, this is a – a highly adaptive team, where I think you will find agility will define the next chapter of this brand and I'm incredibly excited about that, and the storytelling is something, where we'll lean on this [indiscernible] big partners that we have to help us do that. But it's going to come from the process and that is the message we have is. Well, we're going to say that, but that's sort of we're getting where; we've got our holiday party tomorrow afternoon. And so., nobody's Nobody is watching the webcast at this point. So, you guys promise not to tell anybody, but we've got 3,000 of our team mates over in the – our facility and will have – we have got a holiday present for them inclusive of something defining of our vision, mission, values that they take with them with our theme for 2019 we simply say family on the T-shirt. And to do it, we actually have our own version of Santa Claus which is a seven foot tall NBA superstar, Joel Embiid from the Philadelphia 76ers, who is going to be coming down and bringing with him, if you've been to a 76ers game before, you know that they have the biggest, baddest T-shirt cannon in the NBA. And so, we actually have that coming down too, to fire off rapid fire into the audience. And so, that's sport, you know that's brand like that's what we get to live and that's a industry we get to work in each and every day. And it's so very special and something we never take for granted and so, we're going to have a lot of fun in this next chapter.

You know last couple of years we've put a lot of work in. Hopefully, you've seen the benefits of what that means is a stabilization of this brand. The team that we've put in place and the go forward plan that we have that we can execute and we can deliver exactly what we put on that – on that board today and we look forward to doing that and at Under Armour work brand that was built on one of the actions on the white board, simply says let's over promise and deliver. We've evolved that into let's – let's – let's – let's promise what we can deliver. And let's go do a great job for you and that's what we expect to do in the next chapter.

So, thank you all for your time and attention today. We're going to have a lot of fun ...

Unidentified Participant

Thank you.

Unidentified Participant

... chapter, we're running hard for it. Cheers.