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Under Armour, Inc. (UA)

Q2 2019 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the under Armour Inc. Second Quarter Earnings Webcast and Conference Call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session and instructions will follow at that time.

As a reminder, this conference is being recorded. I would now like to introduce your host for today's conference, Lance Allega, Senior Vice President of Investor Relations and Corporate Development. You may begin.

Lance Allega
Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.

Thank you, and good morning everyone joining us on today's call to discuss Under Armour's second quarter 2019 results. Participants on this call will make forward-looking statements and 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 in this morning's press release and documents filed regularly with the SEC. All of which can be found on our website at underarmour.com. During our call, we may reference certain non-GAAP financial information, including adjusted currency neutral terms, which are defined in this morning's release. We use non-GAAP amounts as a lead in some of our discussions because we feel they may more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to amounts in accordance with U.S. GAAP, reconciliations of GAAP to non-GAAP measures can be found in the supplemental financial tables included in the press release which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

Joining us on today's call will be Under Armour Chairman and CEO, Kevin Plank; President and COO, Patrik Frisk; and Chief Financial Officer, Dave Bergman. Following our prepared remarks, we will open the call for questions. With that, I will turn it over to Kevin.

Kevin A. Plank

Chairman & Chief Executive Officer, Under Armour, Inc.

Thank you, Lance, and good morning, everyone. To start off our call, I'd like to take a moment to congratulate a member of Under Armour's family, back-to-back World Cup champion, Kelley O'Hara, who along with the entire U.S. team showed the world that passion and relentless commitment to excellence can achieve greatness. Inspiring, energizing, and dominant, their accomplishment is an incredible representation of the power of sport and why we love what we do here at Under Armour. In these pinnacle moments, it is sometimes easy to forget about the day-to-day grind of training, competing, and recovering, and the absolutely physical and mental grit required to consistently operate with excellence over and over again.

That's exactly what it takes to compete at the highest level. In our own journey toward excellence, during this third year of our strategic transformation, the same disciplines apply, becoming stronger, faster and smarter, and importantly positioning ourselves to be able to deliver consistent profitable results for years to come.

Halfway through 2019, I'm very pleased at the progress we continue to make against our near and long-term objectives. We are running our playbook at precisely the right pace, dictating our tempo to ensure we are in command and control, holistically and proactively. The numerous operational improvements that we've made to eliminate inefficiency and drive standardization across the enterprise are better empowering us to meet our highly discerning consumer when and where they choose to engage Under Armour.

In product, advanced apparel innovations like Rush and the continued expansion of our HOVR footwear cushioning technology is making athletes better and underscoring our position as a premium athletic performance brand of choice.

Entering the back half of the year, our product offering continues to evolve with tighter, better segmented assortments bolstered by improving, return focused marketing. This marriage of great product, reinforced by inspirational storytelling is what athletes, retailers and shareholders have come to expect from Under Armour and while our product specific marketing efforts have yield solid results and demonstrated the power of what is possible when all the pieces are in alignment, from a brand marketing perspective, we've been fairly quiet. We have not, however, been idle internally.

Within our transformation, in the same spirit of our reengineered go to market process, we are working diligently to advance the ecosystem of how we engage and inspire athletes across both physical and digital experiences. And with considerably more science added into the art, we're strengthening the foundation and understanding of our consumers to ensure return driven, data-informed marketing, helping us unlock the full power of the Under Armour brand. In a landscape where seamless physical and digital connectivity is table stakes for consumer engagement, we are laser focused on driving deeper interactions with our athletes at the moments of training, competition and recovery.

With momentum continuing to build across our suite of apps from connected footwear and coaching tips to hydration, nutrition, and exercise tracking, athletes are getting real time feedback, to help them improve their performances and quality of life.

Now, switching gears. Our supply chain continues on its path of significant improvements as well. With our vendor-based consolidation nearly complete and customer service levels improving, our ability to meet consumer demand continues to gain better precision and efficiency. It's also exciting to report that following the successful second quarter implementation of SAP in China, the vast majority of our business is now operating on one global ERP system. Inventory management is also an area that we are particularly proud of, with a 26% decline in the second quarter, representing a reduction of one-third of $1 billion in year-over-year levels. This metric validates significant and continued progress against our goal to more effectively manage the marketplace where Under Armour does business around the world.

Finally, from a financial perspective, we're creating greater stability and consistency to deliver against our expectations. With a disciplined approach, distinct operating principles and measured return based investment, starting to come into alignment, our ability to drive long-term shareholder value is getting back on track. All of this, of course, drives a healthier, stronger, Under Armour brand.

So to close, a solid first half, and we're executing well against our plan to deliver on our expectations for 2019. The work we've put in over the past few years to define, prioritize and organize our brand and company is yielding more consistent results throughout our business and giving us increasing conviction in our long-term strategy.

Moving forward, it is about continuing to execute the play with patience and discipline. Letting the structure, methods and tools we've architected drive greater capabilities across Under Armour, strategically, operationally, and culturally. And with that I will turn it over to Patrik, who just a few weeks back, celebrated his two-year anniversary with us. Welcome, and congrats, Patrik.

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

Thanks, Kevin. I'm incredibly proud of the transformation we've accomplished over the past couple of years. And the achievements are lengthy. From transitioning to a category focus, defining our target consumer and enhancing our regional reorganization, to re-engineering our go to market process and optimizing our supply chain, we're putting ourselves in the best position possible to realize Under Armour's full potential.

Moving forward, it's all about staying disciplined, focused, and methodical, working smarter. There's still a lot more work to do and while we're not declaring victory, the stability across the business and the pace at which we're realizing financial and operational improvements continues to validate that our strategy is working. As a reminder this strategy, which we laid out at our Investor Day, is grounded around five main elements.

First, Under Armour is an athletic performance company, it's our DNA. It's where we compete. And there's no gray area in how we're aligned across our enterprise in this commitment. Second is sharpening our consumer centric approach. With a deep body of research, data and analysis completed, we are beginning to activate more holistically across our target consumer known as the focus performer. At the intersection of product, brand and consumers, we see significant opportunity to deepen our connection with Under Armour athletes globally.

Third is our go to market process, where five fewer months in our seasonal calendar, significantly less SKU styles and materials, better managed inventory, less air freight and higher service levels have begun to show beneficial productivity across our business, especially in our gross margin.

Fourth is marketplace management, which for Under Armour is primarily about two things, inventory and channel optimization. Given our recent track record with inventory management, I believe our results speak for themselves. At the center of our channel approach is the emphasis on protecting our premium athletic brand positioning, whether wholesale, where we remain vigilant around who we partner with, or in our own direct-to-consumer business, we will continue to ensure that consumers get the most premium experience whenever and wherever they engage our brand.

And finally, it's driving shareholder value. When all of this works in concert, margin expansion, cost efficiencies, return focused investments and cash generation, we create optionality for ourselves ensuring our ability to deliver sustainable profitable growth to build long-term shareholder value. With that let's turn back for the quarter and take a look at our regional performance.

In North America, revenue was down 3%, reflecting declines in both our wholesale and direct-to-consumer business. To provide a bit more color to each channel, let's start with wholesale, where our strategy to reduce off-price sales on a year-over-year basis is on track. A positive brand right move to be sure, but still a negative impact to this region's revenue growth for the quarter. And on another positive note for the balance of the year due to orders in hand and improving service levels, North America's premium wholesale business is trending slightly healthier than we had originally anticipated.

In direct-to-consumer, we're experiencing softer than anticipated demand as we work to reset the business toward full price selling. Within our stores, which as a reminder is 90% outlet based in North America, we are seeing higher conversion and slightly higher AUR, which strategically is encouraging, however, it's not enough volume to offset the slower traffic that we're seeing right now. In our online business, we're seeing higher traffic and AUR, but lower conversion. So all-in for North America direct-to-consumer, a bit of a mixed bag with challenges to work through and pockets of strength to build on.

And while this presents challenges to Kevin's earlier point, we have begun to benefit from the optionality that our strategy is providing us. In this case, the combination of cleaner inventory positions and better service levels along with SG&A efficiencies is helping to provide top and bottom line mitigation. Later in the call, Dave will reiterated that there's no change to the expectation that Under Armour will grow 3% to 4% in 2019, the same outlook we provided on February 12. Within North America, however, stronger wholesale expectations combined with softer direct-to-consumer demand translates to an updated view of the full year, where we now expect revenue to be down slightly. While admittedly a modest adjustment, we believe it accurately reflects the executional success, as well as the challenges we're seeing in this business.

Turning to our fastest growing region, Asia Pacific, revenue was up 23%, with growth in wholesale driven by continued expansion in our key partners, as well as sustained momentum in our direct-to-consumer business. The story here remains fairly balanced among product and channel. So overall, we're very pleased with this region's progress. In fact, based on continued strength in the business overall, we now expect revenue to grow at a rate in the low 20s for the full year, up from the previous high teen expectation.

Now, before moving on to our other international regions, I want to take a moment to provide an update on our Japanese business, which is serviced through our licensee. Based on evolving factors, their business was negatively impacted in the second quarter. Although working to address these challenges in the short term, they are anticipating operating at a loss for the balance of the year. Accordingly, given our minority interest in their business, and the requirement to record a portion of their results, we now anticipate a negative impact to our full year earnings per share, which is considered in our unchanged full year EPS expectation of $0.33 to $0.34. In EMEA, revenue was up 6%, driven by continued growth in our wholesale and direct-to-consumer businesses.

And finally, revenue in Latin America was down 3%, a result directly related to the change in our Brazilian business model. Excluding, the Brazilian impact, Latin America revenue was up in the second quarter driven by continued growth in both wholesale and direct-to-consumer.

So to close, it's the ability and the repeatability of processes and structures that we've worked so hard to transform and embed into how we operate, are enabling us to drive greater efficiency, precision and focus than ever before. We're committed to protecting our premium performance brand and are moving toward a better position to support and amplify the power of Under Armour for our consumers, customers, and shareholders. Dave?

David E. Bergman

Chief Financial Officer, Under Armour, Inc.

Thanks, Patrik. I echo Kevin's comments, by saying that our second quarter results speak to the progress we continue to make against our near and long-term objectives and the strength of our long-term strategy. By staying focused on execution, which includes delivering innovative product, maintaining a strong connection with our consumers and strategically managing our business with discipline, we're beginning to deliver on the long-term operating principles that we laid out at our Investor Day. The power of these principles has fostered greater stability across our business and with a few puts and takes we've confidence that the optionality we're building is keeping us squarely on track to deliver on 2019.

Turning to our second quarter results, revenue was up 1%, to $1.2 billion, or up 3% if you exclude the impact of foreign currency. Clicking down, let's start with revenue by channel. Our wholesale business was down 1% to $707 million, driven primarily by planned lower sales to the off-price channel. Excluding the reduced sales to the off-price channel, wholesale revenue would have been up slightly.

Direct-to-consumer revenue was up 2%, to $423 million, which is lower than expected due to traffic and conversion challenges primarily in North America, however, we've remained disciplined in our shift toward full price selling. Licensing was up 20% to $25 million, driven primarily by a settlement with one of our North American partners. By product category, apparel revenue was down 1% to $740 million. Footwear revenue was up 5%, to $284 million. Accessories revenue was unchanged at $106 million, and our Connected Fitness business was up 10% to $32 million.

Turning to gross margin. We saw 170 basis point improvement to 46.5% in the second quarter. To walk you through the components of the improvement, gross margin was positively impacted by approximately 110 basis points from continued supply chain initiatives related to favorable product costs and lower air freight, 50 basis points related to prior year impacts from restructuring efforts, and 30 basis points of regional mix, primarily due to the higher gross margin Asia Pacific business outpacing the growth of our other regions. These improvements were partially offset by approximately 30 basis points of foreign currency headwinds.

SG&A expense increased 2% to $556 million, which was better than expected due to our continued cost management efforts as well as the shift in marketing spend out of the quarter coupled with lower than planned depreciation from capital expenditures and timing of store openings. Second quarter operating loss was $11 million. Interest and other expense was $7 million, and our effective tax rate for the second quarter was approximately 31%.

Taking this to the bottom line, net loss was $17 million or $0.04 in diluted loss per share, which included $0.01 of negative impact due to the performance of our Japanese licensee. On our balance sheet, where we are particularly proud of the progress we're making, cash and cash equivalents were up 131% to $456 million. Total debt was down 24% to $591 million. Capital expenditures were down 23% to $27 million and inventory was down 26% to $966 million.

Turning to our 2019 outlook. There's no change to our expectation that revenue should increase approximately 3% to 4%. Based on factors that Patrik discussed earlier with respect to our North America and Asia Pacific regions, this 3% to 4% growth should consist of a low to mid teen percentage rate increase in our international business, offset by a slight decline in our North America business. Additionally, with improving wholesale expectations, generally offset by a softer DTC outlook in North America, global wholesale and DTC should each grow in the 3% to 4% range.

We continue to expect gross margin to be up approximately 70 basis points to 90 basis points compared to 2018 adjusted gross margin, due to the ongoing supply chain initiatives, including more favorable product costs and lower air freight, coupled with channel mix benefits from lower sales to the off-price channel.

Recall that in 2018, we had approximately 40 basis points of negative gross margin impact, due to our restructuring efforts.

Therefore, on a GAAP basis, gross margin should be up approximately 110 basis points to 130 basis points in 2019. We now expect operating income to reach $230 million to $235 million, compared to our previous expectation of $220 million to $230 million, as we continue to see the results of our operational transformation yielding greater productivity throughout the business.

Moving forward, we are laser focused on creating greater efficiency and agility in our cost structure, enabling us to better prioritize investments in key strategic areas, while remaining disciplined in our commitment to driving operating margin rate improvement.

Interest and other expense net is now planned at approximately $30 million, compared to our previous expectation of $35 million, and we now expect our effective tax rate to be approximately 22%, due to some expected puts and takes in country by country profitability.

As mentioned earlier, there's no change to our diluted EPS expectation of $0.33 to $0.34, as the additional cost efficiencies we are seeing in the underlying business are offsetting the expected negative impact to earnings that we currently see from the performance of our licensee in Japan, which we continue to assess.

Finally, given the continuing improvements and efficiencies we are experiencing within our supply chain, we're expecting end of year inventory to be down at a mid-single digit rate.

Before shifting to Q&A, I want to provide some color on the balance of the year. Starting with the third quarter, we expect revenue to be down 2% to 3% driven by lower sales to the off-price channel, tempered expectations in our DTC business, and impacts from the timing of distributor sales in our international regions, which are meaningfully more fourth quarter weighted.

Third quarter gross margin should be up approximately 120 basis points to 140 basis points versus last year's adjusted gross margin, or up 130 basis points to 150 basis points on a GAAP basis. This increase is primarily due to channel mix benefits, with lower off-price sales compared to the prior year, and supply chain initiatives including lower air freight and product cost improvements. Operating income in the third quarter should reach $115 million to $120 million, and diluted earnings per share should be approximately $0.17 to $0.18.

In the fourth quarter, we expect revenue to be up at a low to mid-teen percentage rate. And to break that down a little more, in North America, cleaner inventory positions and service levels should enable us to more efficiently meet wholesale demand earlier than last year. Thus an incremental benefit as we begin to ship product for 2020 floor sets.

In our international business, expanded distribution, including new store openings along with improved service levels meaningfully benefit the fourth quarter. As a reminder, within the Latin America region, the impact in the Brazilian business model change normalizes in the fourth quarter, so the growth rate there should accelerate as well.

Globally, it's important to note that off-price revenue should be considerably higher in the fourth quarter based on expected timing of sales. Regardless, we remain on track against our plan of lower full year off-price sales compared to 2018. Finally, the fourth quarter is our largest DTC period and is expected to deliver measured growth based on traffic conversion and new door assumptions, supported by an easier comparison for North America against 2018.

With that, I'll conclude our prepared remarks and turn it back to the operator for your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And our first question is from Edward Yruma from KeyBanc Capital. Your line is now open.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning, guys. Thanks for taking the questions. I guess first on the DTC business, I know much of it was deliberate as you pulled back on some of the promos. But kind of talk about the full price conversion, things you're doing to maybe improve it.

And then second, Kevin, I know you said you've kind of deliberately pulled back on brand marketing. I guess, when is the right time to kind of get that message back out in the marketplace? And how loud do you intend to be? Thank you.

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

A

Yeah, hi. Good morning. This is Patrik. I'll start and take the direct-to-consumer question. I think, in general across the business, whether it's in our full price stores or our e-comm business, we're driving the brand towards less promotional activity, more full price sales. And some of the things that we're doing on that – doing to do that is, of course, focusing on improved newness, more frequent drops, for example in e-comm. We're also optimizing our mobile site, and that's coming into effect here especially in the back half of the year. We're also driving some of our customization initiatives with our icon. So, there's a lot more freshness, especially on e-comm that we're driving. And we're also seeing higher traffic in that specific part of our direct-to-consumer.

One thing that's important to remember is that about 90% of our store business in North America is still outlet. Now, what we're seeing in the outlet business, which is interesting, we believe, is yes, there's a little bit of a softer traffic pattern, but at the same time, we're seeing higher conversion and higher AURs. So, our stabilizing of the promotional cadence together with better markdown optimization in that channel is also yielding results.

So, in general, if you take also into consideration the fact that our wholesale business in full price is actually trending better than we thought. All in all, the strategy is working and is taking hold. And we feel really good about how to think about that for the back half of the year and going onward.

So it's a bit of a mixed bag in our direct-to-consumer business, but we believe that some of the initiatives that we have now coming on in the back half of the year is going to stabilize that business. So, do you want to add a little bit of color there, Kevin, on the brand?

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

A

Yeah, let me come back to just how we're thinking about investing in the brand and what that means for us from brand strength standpoint. So, for roughly the last 30 months, this company has been in real transformation mode. And I think what you've been able to see, especially through things like our balance sheet highlights, the growth in our gross margin is that it's paying off and it's a little more immediate. Now, things like brand and product take a little bit longer for the processes to really kick in. And that's what we're looking to do is make sure that everything we do inspires and builds belief in our consumers. As you look at just – if I could reset on some of the internal things we've been doing, as our focus has effectively been, looking toward – inside of this company, we've been doing a complete rewiring from the new global operating model, going from a U.S. company selling things in other places, to building out the four regions, the upgraded new systems with SAP, the leadership with Patrik just celebrating his two-year anniversary, as well as bringing in people like Tchernavia Rocker, our new Head of HR that we have on board.

And then some of the difficult things we've been doing of implementing a new go-to-market process that we're really not going to see until the spring of 2020. And so this isn't about when are we going to run the next ad campaign, it's more of a holistic process that we're putting together. And we really feel that beginning to kick in. So, we haven't been able to run this play repeatedly yet and [ph] that's when we (25:47) know we're going to get good.

The good news is we have been able to call it, we've been able to orchestrate it, and everyone understands what it is and now it's just a matter of our execution. So, I think, we feel really good about that. Again, we used to talk about being a quiet company and a loud brand. We feel that the steps we've been taking over the last two or three years is something that really put us in that position. And so this is a great stabilization quarter for us. Again, nobody is declaring victory, but we like the way that we look and we're set up for the future. So, this company is hungry and we're ready to run.

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

A

Yeah, and if I could add a little bit more on the direct-to-consumer. I think the fact that what you're seeing now, with our inventory levels, the cleansing of our channels starting to really pay off with more new product being on the floor and when we actually have that, we see that working for us, right, in our wholesale channel. And it's really encouraging. So feel good about where we are at, right now, like Kevin said. We're stabilized and moving forward.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Great. Thanks so much, guys.

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

A

Thanks, Edward.

Operator: Thank you. And our next question is from Matthew Boss from JPMorgan. Your line is now open.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

Great. Thanks. On North America, I guess what's your view on the overall athletic landscape today? And as we break down the back half, what's your level of visibility into the forecasted 4Q inflection that's embedded in the forecast today?

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

A

Hi, Matthew, this is Patrik, I'll begin and maybe you want to weigh in a little bit there, Dave, at the end. You know, what we see in the back half of the year comes back to a lot of different things for us. First of all, I think the stabilizing of the business, the cleansing of the channels as it relates to, some of the off-price that we've had, as a hangover in previous years, our ability to service the business, you're really starting to see that really happen right now. And progressively better product, right? More newness. More innovation. We believe that that's really going to help to drive our business in the back half of the year. And I think that's what you're already starting to see a little bit, with this slightly better performance in our wholesale than we had anticipated.

I don't know, Dave, do you want to add a little bit on the actual weighting there in terms of the financials?

David E. Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah, I mean, as you think about running out the rest of the year, I mean, North America, it is a lot of kind of a put and take between wholesale and DTC a little bit there. And the service levels are really improving, which is great. So we're able to ship earlier for those large launches, which has been very beneficial for us, and we expect that in Q4 of this year. And then when you just step back and look at the total company for the back half of the year, and you think about Q3 and Q4, just to give you a little bit more color there, on Q3 of 2019, again, we're expecting to be down 2% to 3%. When you break that by region, North America we're expecting will be down kind of in that mid-single digit range, which is driven largely by the timing of the off-price sales. They are down significantly in Q3 and then up significantly in Q4. And on the international front, you're probably going to see Q3 being up in the mid-single digit range.

It is our lower quarter for international this year, but we are working through the Brazil business model change, which will be comped as we get into Q4 and then also the distributor order flow for international is very Q4 weighted as well. And then when you think about Q3 by channel, wholesale is obviously going to have the biggest impact of that lower off-price sales in Q3. And then, DTC, we're expecting Q3 growth to be kind of similar to Q2 growth.

Q4 is a different story. Q4, we're expecting to be up low to mid-teen rate. A large driver of that is channel mix with a much higher off-price sales in Q4, but, again no change to our overall expectation that full year off-price sales will be down. And within North America, it is our easiest comp in Q4. I think, we're negative 6% in Q4 of last year, and the improving service levels have a big impact for us at the end of the quarter.

And then, on the international front, the service levels are helping a lot as well. But you also have a larger impact internationally for new door openings, both partner and owned. And then also the normalization of the Latin America business with the Brazil change. So, different puts and takes there, but hopefully that helps a little bit with the Q3-Q4 flow for you.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

Yep, that helps a lot. Maybe Kevin just larger picture on product innovation, how would you rank the brand's pipeline if we looked out over maybe the next 12 to 18 months? And on the marketing, what's the best way to compare your go-forward marketing strategy, maybe to campaigns of the past?

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

A

Yeah, I think, it's about getting stronger. We want to be – make sure everyone understands that we're incredibly clear headed and sober about the way we're thinking where the business is right now. We're really proud, I think, of what we've been able to do from driving operational excellence and giving us that stroke that we frankly didn't have before of understanding what it means to become a big company. One thing we're clear on though is that Under Armour has demonstrated it has the capacity and is a great brand, and we know that great brands endure. We also know that our brand resonates and also translates, what the consumer comes to expect is they want a superpower every time they put an Under Armour product on, and our job is to deliver that to them. The last 3 years that I said we've been in this real operational mode, but we believe that that operational strength is what will truly unlock our creative stroke for this company. And we're in the process of moving much better towards that. And so that's going to happen through great product, because great product always wins and tap through great brand moments, and it's moments of Tom Brady winning his 7th Super Bowl, it's Stephen Curry in his 5th NBA Finals, it's Kelly O'Hara winning another World Cup in Under Armour boots. And I think, as we said that we've probably been not as loud of a brand as we expect to be. And that's one of the things that we – you will see begin to play out for this brand as we move forward.

The wiring is what enables us to do that, through things like the new go-to-market process and putting us in a position to really anchor the brand. But the innovation pipeline that we see is strong. We're actually – we're editing and that's the beauty that we're in the position of right now, as we have innovation coming from a number of different places, and it's more the – the biggest issue we have is picking and choosing of what is actually going to get center stage and top billing. So creating that good, better, best, creating segmentation, ensuring that innovation and the superpower that's included in every Under Armour product isn't something it's just one distribution channel, but throughout every place where you show up and you can buy the Under Armour brand. So, we frankly have never been more confident in what we see in the team, in the structure, the process, the ability to do it on a repeatable basis, and most importantly the brand and the story. And so, when all those things come together in concert, you have the magic that makes what a great brand is and we think that's what we've been here in the process of building. So, we feel incredibly positive about where we're going and our ability to do it on a consistent basis too going forward. That's probably the best news.

Matthew R. Boss
Analyst, JPMorgan Securities LLC
Q

Best of luck.

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

Thank you.

Operator: Thank you. And our next question is from Alex Walvis from Goldman Sachs. Your line is now open.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC
Q

Good morning. Thanks so much for taking the question. Thanks for all the color on the North America business so far. I think, you were very clear that some of the changes that you've seen in the North America business have been driven it seems by some lower traffic to the stores and some lower conversion online. I wonder if you could also comment on the state of the U.S. consumer and whether there has been any change there in the backdrop or how you're thinking about spending patterns going forward?

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

Yeah, hi, Alex. This is Patrik. I think right now to be honest, I think, the – in the North American business in general in terms of retail, it's pretty kind of stable. It's – there's no really big aha moments for us. We think for us – specifically for Under Armour a little bit slower in Q2, which is actually the impact that you're seeing on the traffic patterns for us. We were stronger in Q1. It's just a little bit of a slowdown after Easter that's happened to us specifically in our – as we said in our outlet business. That's where we're seeing the traffic just drop. And, you know, this – when we say drop, it's a percentage point or so. So, it's very, very minimal, but of course we have a large business there. So it has an impact, right, overall. But in terms of the consumer, no really big callouts, I think, and no really big callouts, I think for the back half either in terms of how we're thinking about it. For us, like Kevin said, it's a lot, about driving our focus around newness, more frequent drops, and marrying that with better messaging across all of the channels where we compete. We think we have a strong go-to-market for fall this year. We think we have an exceptional go-to-market as we turn the corner into next year, simply because we're getting better at what we do and the coordination across every part of our business is improving together with our service ability, which then translates into better execution. So I think, we're kind of bullish on the North American consumer to be honest with you in terms of that being a fairly stable picture for the back half of the year.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC
Q

Great. Thanks so much. And then you talked about on the North America wholesale side that you had been a little bit surprised to the upside in terms of ordering from – in the full price piece of that channel. Can you talk about which types of customers are particularly strong and then perhaps share some commentary on your conversations with those customers about why those trends are stronger?

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

Yeah, sure. I think, this is what you're seeing – what we're seeing right now happening to the brand in the wholesale channel is, we're finally starting to show up like we would like to show up. What I mean by that is, a lot of the access situation that we've been dealing with over the last 24 months or so, is starting to dissipate from the floor and you're actually seeing us execute a better expression on the Under Armour brand with better product, more elevated product, more consistent messaging, better messaging across all channels of distribution, showing up as a coherent brand, and ultimately servicing the business better. So in other words, everything arrives at the right time to the right place. And, the confidence that that gives us is the fact that when we do that well, the consumer responds. And that's what we're seeing. So we're seeing slightly elevated sell-throughs, compared to what we had expected and that's an encouraging sign for us and it's the same encouraging signs that we're seeing as we think about also what we're doing actually in our retail business in terms of elevating to a more fuller price approach, and less promotional approach going forward. So, all in all, the strategy is working, I think, and at the end of the day, the plan is still the plan, right? We're delivering on the year, what we said we would. We're about two-quarters into a five-year plan and what you're starting to see, I believe, is simply the strategy working, but it takes time, right? You got to – we are living in a 22-month calendar still, we're moving to the 17-month calendar. But for that to take hold and kind of wash through, it's a time factor in there, and you're starting to see that – see us coming out of that 22-month calendar that we went into two years ago, and it's starting to work for us.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Great. Thanks so much. All the best.

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

A

Thank you, Alex.

Operator: Thank you. Our next question is from Paul Lejuez from Citi. Your line is now open.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks, guys. Curious if you can quantify the impact of lower off-price sales to the third quarter revenue, and similarly what sort of a bump are you expecting in the fourth quarter as a result of higher off-price sales? And I guess, just bigger picture, with inventories down as much as they are, I guess I'm just trying to understand why we're talking about higher off-price sales in 4Q at all? And then, just secondly, SG&A came in a little bit better than you guided, curious how much of that was shifting or timing related versus just better efficiencies that we can think of as more of ongoing savings? Thanks.

David E. Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah, Paul, this is Dave. You know, we don't quantify the actual points relative to the off-price liquidation impact, but I will tell you that it is down significantly year-over-year in Q3 and it is up significantly year-over-year in Q4. So it does have a fairly dramatic impact on the growth rates Q3 to Q4. And we have – we appreciate it is little bit of an interesting flow. Some of that has to do with availability as well. As we're getting a lot cleaner with our inventory, the availability of the right access to be able to go out the door, because obviously we want to make sure we would never put something out that is close to what's on the floor already with our full price partners. So, we have to monitor that very well and make sure that we're clean there. And so sometimes that means you have to wait a little bit before you can ship that out and that's part of what's happening with Q3 versus Q4 flow of the off-price. But it's really not any different than what we've been expecting all year. And we're continuing to drive towards our plan of off-price liquidation for the total company being down year-over-year. And when you think about inventory in general, we did overdrive our inventory target a little bit relative to June 30, and some of that had to do with timing of receipts of inventory, in addition to just continued improvement with how tightly we manage the order process, production process, versus demand and lining that up better from a timing and amount perspective. So, a lot of different improvements going on there at once.

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

A

And it is a hats off to the team, I think, the inventory improvement in general of coming down more than $330 million in a year is just a – it's a massive task and it's something that really sets us up well for the future. So, I think that speaks to what the last two years have been for us, as well, really just getting our house in order, getting ourselves [ph] shipped (40:27) and ready and clean and ready to march forward into 2020 and the future.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Are there any pockets where you feel like you're missing sales that you'd like to see come through just as a result of the lower inventory and then also just wanted to circle back on that expense question?

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

A

Yeah, Paul, hi, this is Patrik. No, I would say that we're evenly balanced right now. I think, we're absolutely able to service the business in every channel and every region of the world. Some of that is definitely due to what Kevin talked about, which is a much better planning process going into 2019, and we see that further improve in 2020 going forward. So, at this point in time, I think we're well-balanced.

David E. Bergman
Chief Financial Officer, Under Armour, Inc.

A

And then Paul, on the SG&A, we did come in a little bit better than expected for Q2 as well, and it's largely due to the more disciplined cost management, also the marketing spend shifts that moved out of Q2 and then the lower plan depreciation based on timing and store openings and other CapEx, which I mentioned earlier, but – and although we're seeing some efficiencies come through on a small scale as we continue to make progress on the cost structure, we clearly have more work to do in 2019 and beyond. And so, it's all about balance and making sure we're balancing those investments in key areas to support our long-term growth and still delivering operating margin expansion. So we're continuing to drive through, we're expecting a slight amount of leverage this year, but we got a long way to go beyond that.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Thank you. Good luck.

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

A

Thank you, Paul.

Operator: Thank you. Our next question is from Jonathan Komp from Baird. Your line is now open.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, hi, maybe just a bigger picture question to start. I know, you've had a lot of discussion about stabilizing the business and kind of becoming a more boring and predictable company. I just want to maybe mirror that up against the second half cadence that you pointed to and maybe just to ask if anything has changed in that backdrop or if this is kind of how you saw things playing out for a while?

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

A

Yeah, I think – hi, Jonathan, this is Patrik. Thank you for your question. Well, the plan is still the plan. We're still on the same outlook that we provided on February 12. There's been a little bit of optimization if you like in terms of how we think about the different channels. So, we're not – no surprises here for us, I think. That's a good way to think about it.

Now in terms of being a boring – I don't think I've ever heard that about Under Armour before, but I think we're not going to show up as a boring brand. We never will. We've got incredibly, we believe, exciting plans for what this brand is going to do in the back half of this year going forward, and the advantage we have now is we're actually able to orchestrate the play better. Right? We're able to think about those innovations that Kevin talked about, the marketing that we have, servicing and putting that together with the great marketing and the great product, and actually delivering it all together as a package into different channels, different regions for different moments in time across the world.

And that's really what you need to be able to do today, right? Because the consumer expects you to be able to do that, no matter where they're able to – or where they are in their purchasing journey or decision journey. So with all of the work that's happened here over the last three years in terms of being able to play that coordinated play, the belief we have is that as we move into the future, you will see that coordinated play really play out and become more and more effective with a louder brand, and more exciting proposition to the consumer from both an innovation and a brand perspective.

So we're very confident. We're quietly confident that we're going to be marching forward with this plan that we have and, again, I reiterate we're two quarters into a five-year plan and nothing has really changed in that plan.

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

A

And Jonathan, I think that question deserves two answers. So to be clear with Patrik is that we, of course, expect to be a much quieter company and a much louder brand. And if that continues to sound like a sing-song, it's because it's factual. We understand more than anything is that North America is the straw that sort of stirs the drink that happens around the world and the globe. And you'll see this hyper focus for us, which is why Patrik has been so intent on getting close to North America and understanding what's happening here. With all the while, I don't think, it's to be underplayed of how powerful it has been for us to do this rewiring of the company, of literally changing tires while you're driving with still the ability to, you know, stabilize and demonstrate that stabilization of the business with an eye towards what we're going to be able to do from a growth perspective going forward. And that always begins and ends with the brand, begins and ends with the product that we have and so we feel like we're on our front foot. We feel like we wouldn't have been able to say that a year ago or 18 months ago, but we're in a much better place with that. And while we don't think that we're in a perfect place yet, we're certainly in a better one and we couldn't be more excited about the future with this brand and the team that we have driving it, period, full stop.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Understood. And just as you think about some of the drivers called out in the fourth quarter, does any of the earlier service or anything like that impact the projection that you see entering 2020 and maybe just more broadly, could you talk about today how you view transitioning to the next phase of growth, which I know you talked about entering in 2020 and beyond?

David E. Bergman
Chief Financial Officer, Under Armour, Inc.

A

Hey, Jonathan. This is Dave. You know, the change in North America wholesale, it's really only a slight change. I mean, we've been expecting the improved service levels [ph] who are (46:04) going to allow us to deliver earlier in those ship windows for, you know, 2020 floor sets. So we've been expecting that all along. But we've been seeing actually a little bit more improvement than we've been anticipating. So that is helping a little bit on the wholesale side as we think about Q4 and helping to offset a little bit of that DTC tempered expectation. Relative to 2020, it's too early really to speak to 2020, but we feel good with the plan we laid out at Investor Day relative to coming out of this protect this house phase and moving into perform with balance in 2020 and we'll be excited to talk about that more in the future.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Okay. Understood. Thank you.

Operator: Thank you. Our next question is from Jim Duffy from Stifel. Your line is now open.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. Good morning.

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

A

Hi, Jim.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

I wanted to ask about the North American outlet business. I recognize traffic has been a challenge. Can you speak to the merchandising strategies in the outlets, and I'm curious are the inventories per door down meaningfully in the outlets, and is that perhaps working against the comps? Do you feel you have enough made for to offset the reduction in access? Color there would be helpful. Thanks.

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

A

Yeah, hi, Jim. Yeah, this is Patrik. Hi, Jim. No, I think, the only thing that's really affecting our ability to execute in our outlets, right now, is just that slight, slight decline in traffic. To be honest, I think, in terms of, how we're executing in our outlets, the fact that we're having higher conversion and higher AURs makes us think that what we have actually as a merchandising point of view in our outlets right now is actually very good. And it's – we believe it's going to continue to improve in the back half of the year. So, there's no lack of product on the floor or in our inventory levels for our outlets right now. We planned it the right way and we feel pretty good about the back half in terms of what we're going to be doing from a merchandising inventory shipment perspective.

So we also think that, in the same way that we're improving product for our full price offering, we're also, of course, making sure that we're providing the right product for the outlets and we believe that over the last 2, 2.5 years we've actually started to improve that slightly as well. So, we're confident.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Okay. Next question on the Japan business. You guys mentioned exploring opportunities. It sounds like the drag from minority interest was a surprise. Can you talk about the state of that business, size the exposure to potential drag in the future, and maybe speak to the prospects for a turn and improvement in profitability?

David E. Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah, Jim, this is Dave. I think, first – I think, it's really important to note this is a longstanding partnership that we've had in Japan and a very important market, obviously. And as a reminder, we did increase ownership to 29.5% which requires us to record an allocable portion of their earnings through our EPS.

Again, for Q2, it was about a negative $0.01 impact for us. And based on what we know now, it could be an additional $0.01 or $0.02 in the balance of the year, and that's factored into our updated outlook that we gave this morning. We are continuing to monitor their business and work with them. We should be able to provide more color later in the year, but right now it's a little too early for that.

James Vincent Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you.

Operator: Thank you. Our next question is from Erinn Murphy from Piper Jaffray. Your line is now open.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Great. Thanks. Good morning. I wanted to focus a little bit on your footwear business. It was very strong in the second quarter even against your toughest comparison of the year last year. Can you just speak to some of the drivers? Is that just a continued rollout of HOVR across many different franchises? And then how are you thinking about the footwear business in the back half?

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

A

Yes, hi, Erinn, this is Patrik. Yeah, we're very happy actually with how our footwear is developing. And the HOVR expansion this year with additional models have done very well. And we see continued traction for that franchise across the world. We're very proud of that and a lot of that has had to do with the new go-to-market.

If you remember, we launched that last year and that was the first time that we launched a model, or a platform with a 360-degree approach through digital, and had great success last year. We're building on that with all the learnings that we got from last year. And you saw that as we came on and we actually launched our Infinite already in February became a recommended style from – on the front cover of Runner's World. I don't think anybody would have thought that Under Armour was going to get into the running game with such a strong point of view just a couple of years ago. But what we're seeing is the traction continues. And what's encouraging for us is that the models we had in market last year continue to build and we're layering on new products.

We've elevated the products. Infinite, for example, is a $120 shoe that's doing very well in the market for us right now. So it's giving us confidence that the consumer is absolutely willing to side with Under Armour in running footwear, if they have the right product and the right messaging. It's the famous SPF that we talk about, the style, performance and fit. And when we do that right with the right messaging and the right timing, the right distribution, the consumer is there for Under Armour.

So, we're very encouraged by that. And what's exciting for us is, we have new innovations in footwear coming in the back half of the year, new styles. We also have a strong lineup going into the future. Kevin was alluding a little bit to that as it relates to innovation. So we now believe that we are very rapidly as a company starting to really learn and understand how to launch platforms in footwear and then build on them, which is, of course, critical to our future growth, especially as we think about not just channel segmentation and penetration, but also from a global perspective. So it's a real highlight and thank you very much for calling that out. It's been really, really encouraging for us.

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

Yeah, and let me give some color too, just from a historical standpoint on what footwear really means for the brand of looking over the history of how important it is to driving our AURs, competing in the industry where we do, of getting our selling up for each footstep that walks through the door. But we're finally in a position where we've got the context of having a good, better, best strategy. Our Micro G platform and our Charged mid-sell platform, our HOVR mid-sell platform. The ability for us to then segment that, the ability for us to then take that from one category into another, from cleated, from on-court, from on-field to what people are wearing when they go to and from as well. So I really feel confident about us doing that. As Patrik mentions things like the biggest global market opportunity being something like running, where our introduction into running isn't just another pair of shoes, but it's actually a connected shoe that comes with an app. That's unique, that ties in the world's largest connected fitness health system in the world, and so we believe that giving people coaching and giving them real-time understanding of what's happening gives us a unique position that makes Under Armour just a very special and unique player that secures our future and gives us the reason to be in this business to begin with. And so our job is delivering those superpowers in every product we build and footwear is certainly no exception to that, and so we feel good about our ability to march forward with that going in our next steps too.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.
Q

Great. And then just my second question is, in the recent past you guys have talked about doing a smaller store test here in North America, I think in the back half of this year. Just with what you've been seeing in DTC, has that changed your thinking about rolling out some of these test stores? Just any update on that strategy. Thanks.

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

Yeah, no, I think our strategy in terms of DTC both here in North America and going forward in international hasn't changed. We laid it out at Investor Day, we believe that direct-to-consumer for us is going to be the majority of our business long term, around the world. In many parts of the world, the expansion happens through as you know, either e-comm or mono-branded stores. So we will continue to invest into direct-to-consumer. And here in North America, we have a plan of how to do that and as we spoke to you guys about it at the Investor Day, it starts carefully. We're building out what we believe is a new way to think about retail for the brand, in the back half of this year with a handful of stores in North America, it will accelerate slightly next year and into the five-year plan. But we continue to belief in the brand. I think, what you're seeing in our retail right now is just a little bit of a tempering as we're adjusting ourselves into this premium full price model again, and for us it was expected. We just perhaps weren't expecting it to happen in our outlets necessarily in this quarter. So I think, what we're seeing right now, what we think we're seeing right now is a quarterly thing, not necessarily a long-term thing. So, we're confident in what we're doing with our retail formats and one thing that's important to understand about that too is it's not a bunch of guys and girls sitting here at Under Armour thinking about how to build a new retail store. We've done over 40,000 consumer interviews over the last two years across the entire world. We have done an enormous amount of in-store exploration, and we understand we believe today much better from a consumer insights perspective what the consumer is expecting from this brand through the lens of this focus performer that is our core consumer target. So, we believe that through this work that we have done, we're going to be able to launch in a very strategic way and it is a long-term play. So we're not going to rush out and build hundreds of stores in North America. We are going to do it in a thoughtful, methodical strategic way and win long-term in direct-to-consumer, and we still believe very much in direct-to-consumer for the brand going forwards as per our plan that we laid out in January – I'm sorry, in December last year.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.
Q

Great. Good to hear. Thank you guys. All the best.

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

Thanks.

Operator: Thank you. Our last question is from Brian Nagel from Oppenheimer. Your line is now open.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

Hi, good morning. Thank you for taking my questions.

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

Good morning, Brian.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.
Q

So my first question, maybe a little bit of a follow-up to that prior question. But you talked about direct-to-consumer and the e-commerce piece of that. So the question I have is as you've begun – we've gone from stabilization [indiscernible] (57:14) to re-growing the brand, and taking into consideration, what others in the at-leisure, athletic space you're doing, do you see a need for further or stepped up investment in e-commerce to connect with consumers?

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

A

Hi. This is Patrik. Yes, we do. Digital in general is just a bigger component of everything that happens and so we're encouraged by what we see today, right, in our e-commerce platform, the fact that the traffic is healthy to our e-commerce platform. What we're doing, though, is we're not standing still as it relates to the functionality and the merchandising aspect and in freshness and newness that needs to happen in digital today. So what you'll see from Under Armour going forward is an acceleration in those areas. We're also migrating to a new platform in e-commerce in 2020 that we believe is going to give us better ability to merchandise, better ability to service the consumer and tell our story, and so there's a lot of work that we're putting into getting better from an e-commerce digital perspective. And what's interesting, we believe also is our ability to more and more connect the dots between what's happening in our connected fitness business and our Under Armour brand business. And we believe that's going to become more and more of an advantage to us as we move into the future as well.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Thank you. Then a follow-up if I could, maybe a shorter term question. But clearly gross margin has been a nice bright spot for Under Armour here, as the product mix with channel distribution turns healthier. How should we think about the longer term potential for gross margin or maybe said another way, a structural-type run rate for gross margin as the business continues – the structural – the basis of the continued – the conditions of the overall business continue to improve. Thanks.

David E. Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah, Brian, this is Dave. We have been excited about our continued gross margin expansion and we're continuing to drive that through Q3 and Q4 of this year in a considerable way. And, again, the recurring themes there are going to be the supply chain initiatives which are really driving better product costing, lower air freight, and a lot of the things that have gone into that is the SKU reductions that we've done, the volume benefits from that, the improved cost in transparency, the vendor consolidation that we worked through, the improved go-to-market processes, all those things are coming into play to drive better product costing. And we're also getting more analytical and deeper in how we do our pricing. And then from a channel mix perspective, we talked a lot about the off-price channel which we use more heavily in 2017 and 2018 to actively get beyond our inventory overhang that we had. So, now we're looking to step off that each year and we're doing that in 2019 as we had planned and get back to what we think is more of an optimal mix for that.

We'll continue to look at that as we go forward in 2020 and beyond. And the costing improvements should continue to be helpful for us going forward, and then also, Asia Pacific is our highest gross profit region. In Asia Pacific, we're very excited about the future growth there, and that should continue to be a head – or I'm sorry, a tailwind for us going forward. So at this point, we're not going to be giving color to 2020 specifically, but a lot of these things are going in the right direction this year. And we're going to continue drive forward in 2020 and beyond.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. Great. Well, thank you.

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

A

Thank you for your question, Brian. And just for all, again, this is the second quarter in a five-year plan that we laid out back in December. We feel very confident about where we are. There's certainly a lot of work to do and, again, this team has never been more committed and more prepared and more in a position to actually be able to impact our business moving forward. And so you will continue to see us work like crazy, but we've got the greatest brand in the world with the greatest team in the world. With this understand, it's a brand that's meant to be because we do deliver those superpowers in every product that we build, and you can continue to count on that from Under Armour. So, thank you very much, operator. You all have a great day.

Operator: Ladies and gentlemen. Thank you for your participation in today's conference. This concludes the program. You may now disconnect.