CORPORATE PARTICIPANTS

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

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

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

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

OTHER PARTICIPANTS

Randal J. Konik  
Analyst, Jefferies LLC

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

Matthew Robert Boss  
Analyst, JPMorgan Securities LLC

Matthew McClintock  
Analyst, Barclays Capital, Inc.

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

Edward J. Yurma  
Analyst, KeyBanc Capital Markets, Inc.

Lauren Cassel  
Analyst, Morgan Stanley & Co. LLC

Michael Binetti  
Analyst, Credit Suisse Securities (USA) LLC

MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Under Armour, Inc.'s Third Quarter 2018 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 be given at that time. [Operator Instructions] As a reminder, today's conference is being recorded.

I would now like to turn the call over to Mr. Lance Allega, Vice President of Investor Relations. Sir, you may begin.

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

Thank you, and good morning to everyone joining us on today's call to discuss Under Armour's third quarter 2018 results. Participants on this call will make 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 in this morning's press release and documents filed regularly with the SEC, all of which can be found on our website at uabiz.com.

During our call, we may reference certain non-GAAP financial information including adjusted and currency-neutral terms, which are defined in this morning's release. We use non-GAAP amounts as the lead in some of our discussions, because we feel they 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 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'll open the call for questions.

With that, I'll turn it over to Kevin.

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

Thanks, Lance and good morning, everyone. On our call a year ago, I spoke about our story in the context of chapters, the early days going public and then getting big fast. In our get big faster we accomplished what we set out to do; gain the scale and innovation product and global footprint necessary to show up in the consumer consideration set of the world's best athletic brands.

Following this rapid growth, over the past two years of our transformation, we've been laser-focused on driving greater structural, financial and operational efficiencies. Two years that have served as one of the most challenging yet productive and opportunistic times in our history. During this tenure we've executed against a number of strategic initiatives to better ourselves as a company and as a brand.

To highlight some of these efforts, I'd start with our restructuring plans which we've used to close underperforming facilities and retail locations, exit certain sports marketing contracts, optimize our global workforce and aggressively clear challenged inventories.

In our supply chain, we've shortened lead times, are executing against global vendor consolidation, substantially reduced our inventory levels and are continuing to increase our distribution efficiencies.

Within our product category and merchandising teams, we've aligned calendars across all functions; removed a significant number of SKUs, styles, trends, [ph] less and (3:09) materials. Shortened our overall go-to-market calendar by four to five months and streamlined our category structure.

Within marketing, digital and IT, we're improving our global CRM, utilizing ROMI or return on marketing investment to employ assets at the highest rates of return. Updating our global ERP with our partners at SAP and continuing to commercialize the intersection of our digital fitness e-commerce and social media platforms. And within our financial organization, efforts around smart spend, zero-based budgeting and more efficient SG&A productivity continue to instill a high level of discipline across our company.

These efforts demonstrate the holistic approach we're engaging in this transformation yet this isn't a cost-cutting exercise which is why we're being methodical and measured about its execution. It takes time and by design, it's purposeful. An evolution that is geared at producing smarter brand-right decisions to generate consistent results through repeatable processes that ultimately drive greater shareholder returns, all the while ensuring that our brand remains coveted and desirable as we grow globally.

Today's third quarter results show just that, another solid proof point that our multiyear journey toward becoming a more operationally excellent company is on track. As we work to close out the second year of this transformative chapter, as we work to protect this house, we are steadfast in the challenge of becoming better at every turn. And
as we continue attacking the dimensions of our strategic pillars, products, story, service and team, our foundation has become stronger and our ability to execute more successfully is getting momentum.

Momentum. Momentum is an essential asset of this transformation because we never stopped. We never stopped innovating better products; we never stopped cultivating powerful consumer connections; we never stopped identifying ways to be a better retail partner and we've never stopped evolving our culture as a team. This momentum is the very fuel that drives our reason for being, to make you better by delivering performance solutions you never knew you needed and can't imagine living without. This is Under Armour. And as I look to the future, I've never been more energized, confident and excited about what is ahead for us, both as a brand and as an operator.

By product type, gender, category, channel or geography, we are underpenetrated by any measure and have significant scalable growth opportunities before us. Growth, of course, is not given. It's hard-fought and earned whether by taking share or creating greater marketplace capacity. In this pursuit, we'll continue to apply the lessons we've learned and dictate the right tempo in our next chapter with an unmistakable commitment to protecting the Under Armour brand.

Through smart marketplace management and optimal supply and demand execution, we'll be discerning as the definition of growth for Under Armour continues to evolve. Growth at all levels. This is precisely the position we're working to put ourselves in by ultimately being able to employ multiple levers: revenue, margin, SG&A, cash flow and ROIC. The optionality we're working to establish will ensure our ability to deliver consistently to our consumers, customers and shareholders in both good and challenging times. In summary, we are right where we thought we would be; stabilizing, fortifying and operating with increased excellence across our business.

From product, retail and sales to our regions, categories and the functions that support them globally, we are working single-mindedly in driving resolutely into our next chapter. That said, we're looking forward to sharing a deeper perspective on our strategies and our long-term outlook with you at our December Investor Day.

And with that, I'll hand it over to Patrik.

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

Thanks, Kevin. With one quarter to go in 2018, our playbook is working. As we continue to execute successfully against our plans, we are focused on managing the business for sustainable long-term profitability. Becoming more disciplined however does not mean that we're on the defense. In fact, discipline gives us the freedom to elevate our innovation agenda even further, helping athletes to redefine what is possible, physically, mentally and spiritually and delivering products that advances human performance is our promise.

With that, let's dive into a few product highlights. Starting with training. We're seeing great response and continued momentum in newer offerings like Project Rock 1 and Breathe Lace footwear collections, our reengineered ArmourStorm and ColdGear Reactor Fleece and our Recovery apparel which features bioceramic technology that uses your body heat to promote muscle restoration.

In running, UA's HOVR cushioning technology found in our Phantom and Sonic and now also in the newly added CGR style continues to validate our brand as a top choice for runners. Add to this the ability to seamlessly connect through MapMyRun app and it's easy to understand why we call this ecosystem an entirely new running experience. Yes, it's not just our premium running products that's checking, Pursuit and Assert both had strong showings as well.
And in basketball, just like Stephen, the Curry 5 continues to perform well authenticating the strength of this young franchise. With Curry 6 set to come out in a few weeks time, our ability to combine game-changing innovation with unparalleled aesthetic is gaining momentum. Also of note of course, the zero-gravity feel of HOVR has just now joined the UA Basketball with the launch of our Havoc model. And of course, we’re very excited to announce the addition of Joel Embiid to the UA family, definitely a lot of energy coming from this business.

HOVR also expanded into our Sportstyle footwear category with the launch of SLK which drives the perfect balance between sports and street style, helping to drive relevance and wearing occasions. We also launched the Forge 96, a throwback to the year we were founded, a limited edition that sold out in its initial launch quantities in just two days.

Supporting this momentum is being a loud brand with improved storytelling and we’re doing just that with more cohesive always on activation supporting pinnacle technologies like HOVR and the Project Rock inquiry franchisees our training, running and basketball categories are setting up for increasing success.

At the brand level, we just launched [ph] Will Makes You Family (9:36) which speaks to the hardwork, hustle and grind of everyday training, the relentless effort and commitment to improving one’s performance. Behind all of this, we’re also making meaningful changes to how we plan, build and execute our marketing investments including an amplified focus on returning investment and the ability to positively impact brand perception and consideration.

Turning to the quarter. Let’s take a look at how we did in each region. In North America revenue was down 2% which was slightly better than our expectations. This was primarily due to improved service levels and the related timing of shipments. So we’re a bit early in the second half of the year, yet no change to how we see the full year playing out. Overall, while there’s still work to do, we like the stability that we’re seeing in North America including the progress we’ve made driving our inventory into better alignment with revenue.

Our international business was up 15% which is consistent with what we mentioned on our last call that the third quarter would be our lowest international growth period of the year. This is how we plan the business to better align with customer demand along with an expectation around improved international service levels in the fourth quarter. For the year, we expect international revenue to be up approximately 25%.

Clicking down into the regions. In the EMEA revenue was up 15% driven by growth in our wholesale and direct-to-consumer businesses. Revenue in Asia-Pacific was also up 15% with particular strength in our wholesale channel.

During the quarter, our commitment to maintaining our premium positioning resulted in fewer planned promotional events and thus lowered growth within our DTC business. And finally, revenue for Latin America was up 16% driven primarily by strength in our wholesale business.

So to sum it up, we’re executing well against our strategic initiatives and our transformation is on track. While we continue to navigate near-term challenges in certain areas of our business, the incremental progress we continue to make is laying the necessary foundation to deliver sustainable and profitable growth over the long-term.

And with that, I’ll hand it over to Dave to talk through the financials.

David E. Bergman
Chief Financial Officer, Under Armour, Inc.
Thanks, Patrik. Before discussing our third quarter results, I'd like to provide an update to our 2018 restructuring plan and the one-time items that impacted us during the quarter. Of the expected $200 million to $220 million of restructuring and related charges, year-to-date we have realized $154 million including $24 million recognized in the third quarter. With respect to this plan, I will reiterate that we do not anticipate any significant updates to our 2018 restructuring plan and we do not anticipate any additional plans or charges next year.

Turning to our results. Let's start with revenue which was up 2% to $1.4 billion in the third quarter, or up 3% if you exclude the impacts of foreign currency.

Clicking down by channel, sales to our wholesale customers were up 4% to $914 million driven by growth in our international regions.

Direct-to-consumer revenue was flat compared to the prior year of $465 million and represented 32% of total revenue in the quarter. This was generally in line with what we expected due primarily to significantly lower promotional activity which made for a more difficult comp against last year's third quarter.

For reference, our planned promotional days in North America are expected to be down by about one-third in 2018 versus 2017. Licensing declined 9% to $31 million driven primarily by lower North American demand.

By product type, apparel revenue increased 4% to $978 million with growth in training, golf and team sports. Revenue for our footwear business was flat at $285 million. And accessories revenue was down 6% to $116 million due to declines in our outdoor and training businesses.

By region, our North American business was down 2% to $1.1 billion. On a currency neutral basis, North America was down 1%. Our international business grew 15% to $351 million representing 24% of total revenue in the quarter. On a currency neutral basis international revenue was up 17%. And finally, our Connected Fitness business was up 20% to $32 million driven by continued strength in our subscription revenue.

Turning to gross margin. We saw a 10 basis point improvement to 46.1% inclusive of a $5 million impact related to restructuring efforts. Excluding restructuring charges in both periods, adjusted gross margin was 46.5%, an increase of 20 basis points. This was driven by approximately 70 basis points of improvement in product costs and lower promotions, partially offset by approximately 40 basis points of channel mix driven by higher sales to distributors which carry a lower gross margin rate.

Relative to our previous expectations for the quarter, the mix of product that sold through at a higher margin was greater than originally anticipated. SG&A expense increased 5% to $528 million. We continue to focus our investments in our DTC, footwear and international businesses. Relative to our expectations, we are realizing some early benefits from our efforts to drive greater efficiency and effectiveness.

We also had approximately $9 million in marketing spend move into the fourth quarter related to changes in media buys and activation timing. Third quarter operating income was $119 million and our adjusted operating income was $143 million.

Interest and other expense was $13 million, which was worse than expected due primarily to increased foreign currency headwinds. Our effective tax rate was 29.3% in the third quarter and our adjusted tax rate was 14%. Taking this to the bottom-line, net income was $75 million, or $0.17 of diluted earnings per share. Adjusted net income was approximately $112 million, or $0.25 of adjusted diluted earnings per share.
Turning to our balance sheet. Cash and cash equivalents were down 35% to $169 million. Total debt was down 25% to $803 million. Capital expenditures were down 47% to $29 million and inventory was down 1% to $1.2 billion which was a notable improvement over our previous expectation of a high single-digit increase.

To wrap-up our financial review, let's walk through our updated 2018 outlook. We expect our full year revenue to be up in the 3% to 4% range driven by international growth of approximately 25% being offset by a low single-digit decline in North America.

From a product perspective, apparel is expected to grow at a mid-single-digit rate, footwear at a low single-digit rate and accessories is now expected to decline at a mid-single-digit rate.

From a channel perspective, we expect a low single-digit increase in our wholesale revenue and there is no change to the outlook we provided on February 13 that our DTC business will be up at a mid to high single-digit rate.

We continue to expect that gross margin should come in flat to slightly down and if you exclude restructuring charges in both periods, there is no change to the expectation that adjusted gross margin should see a slight improvement on the full year. We continue to anticipate SG&A to be up at a mid single-digit rate.

And on a GAAP basis, we now expect an operating loss of approximately $50 million to $55 million versus our previous expectation of a $60 million loss. If you exclude restructuring charges, adjusted operating income is now expected to reach the $150 million to $165 million range versus the previous $140 million to $160 million range.

Next up is our adjusted effective tax rate. Previously, we had anticipated our full year rate to approximate 25% to 27%. Based on a one-time favorable tax structure change related to an inter-company asset sale, we now expect our full year adjusted effective tax rate to be 13% to 15%.

After taking these true-ups through to the bottom-line, we now expect adjusted diluted earnings per share of approximately $0.19 to $0.22 in 2018, inclusive of a $0.02 benefit from the one-time favorable tax structure change.

With respect to inventory, we expect to end the year flat to slightly down compared to 2017. A direct reflection of the methodical and strategic focus we have employed primarily in our North American business.

And finally, we now expect capital expenditures of approximately $175 million, down from the $200 million we provided on our last earnings call.

As we close out today's prepared remarks, I'd like to underscore just how pleased we are at the progress we're making to becoming more operationally excellent company. Through a number of strategic initiatives we are driving greater discipline, efficiency and effectiveness across the organization from operating model and structural changes to supply chain, marketing and DTC optimization strategies, we are increasingly more confident in our ability to deliver greater consistency, holistic growth and a more predictable profitability over the long-term.

That concludes our prepared remarks. So with that, I'll turn it back to the operator for your questions. Operator?
QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] And our first question will come from the line of Randy Konik with Jefferies. Your line is open.

Randal J. Konik
Analyst, Jefferies LLC

Yes. Thanks a lot. I have two questions. I have a question for Dave and a question for Kevin. I guess, first for Kevin. The thing that really kind of stands out about the call is the – the talk about operational excellence and discipline, it clearly shows through in terms of the speech. So my question for you is in terms of the accomplishments thus far, what are you personally most proud of and what are you looking forward to in terms of continuing to kind of continue to permeate that operational discipline and excellence across the organization going forward?

And for Dave, the other part of the quarter that was pretty impressive I think the market will actually – is latching on to is the inventory down yet gross margin better. You talked about the product cost improvement below promotional posture. So give us some perspective on where we are in that runway of product cost improvement going forward? How we should think about lower promotional posture as well going forward over the medium-term. And any update on how much you reduced the SKU counts in the business and how much that's improved SKU productivity in the business and how we can think about that going forward? Thanks

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

Hey, Randy. Thanks very much for the question. I think first and foremost is the resilience of this team. I can't speak enough about just how strong this team. We say things around here like we're the best at getting better and that we live in constant evolution and progression of being better than we were the day before. And that's something I think the last – nearly two years now have really defined for this company.

First of all, it's been terrific having a partner like Patrik come join David, myself, the executive team but it's much bigger than that because it has to be a holistic buy-in from the entire company to deciding that we're just going to be better at how we operate. And that also isn't limited to just structure, process, operations but also how we're constantly evolving as a culture.

And I look at the company that we are today, I think the brand that went public in 2005 and I'm incredibly proud of that. A little more target and in specific of what we've accomplished just in the last 20 months and I think it's important that people understand the seismic shift that we've been going through. And frankly, the ability for us to do that and while limited and no one I think is really jumping up and down about the size of the growth, the ability to still move forward while implementing a brand new go-to-market process that has been really transformational for the company and we even really haven't even seen the benefit of that till beginning in spring 2019. But you're starting to see some of that come together with just the timing.

Our ability to deliver, having gone through an SAP implementation last July and what it means to have that overhaul, we now have a best-in-class scalable system that we think really will allow us to grow and get the best out of what we're doing. And a lot of what we're seeing with inventory and what's coming through right now, I think speaks to and comes from the ability for us to deliver on time and really being able to just get those metrics in order.
We implemented and created a brand new operating model – really implementing the four regions out of Amsterdam, out of Hong Kong, out of Panama City and then here in the States. The evolving I think what's really important also is just the culture and the mindset that we have. I mean, the athletes want to win. I've been thinking about it and I'm trying to figure out if we can make the claim whether we have more athletes as teammates here than any other place in the world. But I'd imagine we'd be pretty darn close, because this is a competitive mindset and one that just – does just want to be better.

And so we realize is that we want to be clear. We are certainly not declaring victory, but we're really proud of the progress this team has made, how far we've come, and I think the opportunities that we have in front of us. And so there is work to be done and the thing that'll tell all of it is when you see the great product that compels you to want to buy in. We're proud to see consumers making those choices a lot more for this brand right now.

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

And Randy this is Dave. Relative to gross margin and inventory, we definitely are proud of where we're driving through here. I mean, if you think about Q3, we did run a little bit better than what we guided. Some of that was the mix of the product that went out the door, some of that was a little bit better promotional cadence and running less promotions et cetera and still being able to drive through.

And that helped offset a little bit of the developing FX pressure that we're seeing in the back half of the year. So, again no real change on full year, but we're happy to see how we're driving through there. And if you think about Q4, we had always anticipated that Q4 is going to be our highest gross margin rate improvement and the largest factor there really being that the significant supply chain initiatives that we initiated last year that we spoken to, they really take hold in later fall winter 2018 product but also in some of the spring summer 2019 product that will go out towards the end of this year.

And then also we've talked a lot about aggressively dealing with inventory. We've done a lot of that in the first three quarters to the point that we don't need to do as much of that in Q4, so that ends up being no longer a gross margin headwind in Q4. So, a lot of things going in the right direction there as we drive through and execute on our plans. And then from an inventory perspective, we did land Q3 inventory a little bit better than anticipated, which is also exciting to see. We did have higher North America revenue there in Q3, which helped with the service levels driving through. We've got tighter supply planning and receipt timing as we work through with supply chain team, and then also just working through some of the model changes with the Brazil model change. So a couple different things going in our favor there and we're continuing to drive through for year-end on that.

Randal J. Konik
Analyst, Jefferies LLC

[indiscernible] (26:08) just on clarity on the SKU count progress?

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

Hi, Randy, this is Patrik. Yeah. We continue to drive our SKUs down season on season. And right now we're down about 40% on our SKU count, but we see even more opportunity going forward. So it's really about not just the SKU count but what that also means for how we think about materials in terms of the materials we use to make our product, we're also driving that down, the trims that we have in terms of zippers and buttons and stuff like that, it's also down about 80%.
So, we're driving SKUs down, but there's more efficiencies than just SKUs. It's all of the things that go into building those SKUs as well as it's a vendor consolidation. So, we're also driving our vendor base down by about 25%. And we see more opportunity actually as we now have started development of the spring 2020 to drive that even further down.

Randal J. Konik
Analyst, Jefferies LLC

A lot more good focus and you're seeing it through the numbers. Thanks, guys.

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

Thank you.

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

Thanks, Randy.

Operator: Thank you. And our next question comes from the line of Jonathan Komp with Baird. Your line is open.

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

Yeah. Hi, thank you. Hey Kevin, I wanted to start just by following up. I know you've talked about a lot of the operating enhancements that have led to the results we see, but you also used the word momentum several times. So, I just wanted to follow-up and maybe ask what indicators you're looking at within the business when you talk about seeing momentum. And at what point do you think that translates to your core market North America getting back to sustainably growing again?

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

Let me touch on that and I'm going to let my partner pick up the other side of that. But momentum is a word that you take and it's all relative too. And so I think from sort of where this brand was and one of the things that David called out is as we've grown is, I think that we're proud of what we've done with getting our inventories in line.

Momentum from an operational standpoint, the fact that we're also doing that by having about almost a third less of promotional days and so it's difficult for me even to say that, it is because the brand that we see is a full-priced brand and it is a great product that is driving the appetite from the consumer to want to be a part to dive in and to grow with it. But I feel – let me let Patrik jump on the momentum side.

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

Yes, I think the way we're thinking about it is stabilizing the business has been a priority for us from 2017 coming into 2018. And right now we're very much heads down operating through 2018 making sure that we're delivering on the year that's really important to us. But as part of this transformation that Kevin talked about earlier, we've also been driving our supply chain really hard to make sure that we're servicing our accounts better.
And we believe that with servicing our accounts better, doing our marketing and messaging better and actually getting that great product that we have on the shelves to the right place at the right time will start to drive momentum for us. And that's really what we're feeling right now, a little bit of momentum building in North America specifically.

But we've also made strategic decisions around how to think about our promotional days like Kevin said, for example, we have a third fewer promotional days in our direct-to-consumer business in North America alone this year. Those are things that are, we believe, over time going to help drive our brand heat back up. And if we can continue to do what we're doing now much better which is servicing the business, we believe that you're going to start to see more momentum build for the brand going forward. I don't know if you want to add anything to that Kevin.

Yes. If you don't mind us just staying on this, but again I can't iterate enough just the fact that great product wins. But in addition to just having great product, we're also driving operational excellence and I think that's something where when we have the funnel that we have at the top, where we've got enough great ideas, it's a matter of how we can execute them and really run the go-to-market in a way that it will deliver for the consumer.

Another just couple of anecdotal things when I say momentum, it is when you look at some of the recent signings we made especially on the basketball side of our house with Joel Embiid joining our team who is a perennial All-Star, the decision for him, it wasn't just money, he had plenty of options. And so we didn't have to be the biggest check out there, is that there's something I think that the athlete sees is because when you come here and you get the tour, and I think most importantly, you feel the team, I think you see that there is a belief. And I want to be clear, we're not declaring victory. We've got a lot of work to do. We're not crazy about the sort of overall position.

If you ask me, I'd say is business great? I don't know if it's great. I'd say if the business is not great, I'd say it's not great. I think we're just doing fine. And if we can do this sort of restoration of filling and really making strong this team and this operating structure, I think we're going to have – we're going to really be something to deal with in about another 12 months or so, more to come on Investor Day.

Certainly. I appreciate the balanced view there. Maybe just one follow-up for Dave, I wanted to ask more specifically on the promotional day decline this year. I think you said down a third in North America. Could you just give more of a sense of the pacing of that throughout the year, like maybe first half versus second half or even what you're thinking for the fourth quarter?

And then, I guess the bigger picture question on gross margin is, even though you've had less promotional days, it's still stabilizing at pretty low levels relative to historical. So any thoughts on at what point you start to recapture and some of the drivers there?

Yes. I mean, again overall about a third lower for the full year; we're not going to really give the quarter-by-quarter cadence of that. But I'd say that that gap in promotional days is a little bit less in Q4 than probably the first nine
months. And then relative to gross margin, obviously, we’ve got a pretty big headwind this year with the amount of 
off-price liquidation we’ve done to be able to deal with the inventory overhang. And we are excited about the 
costing improvements coming through that we mentioned a lot that we start to see in Q3 and Q4 of this year. But 
relative to next year and beyond, we’ll be excited to talk about that when we get to Investor Day.

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

Understood, thanks guys.

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

Thanks very much.

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

Thanks Jon.

Operator: Thank you. Our next question comes from the line of Matthew Boss with JPMorgan. Your line is open.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

Thanks and congrats on a nice quarter guys.

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

Thanks Matt.

Matthew Robert Boss
Analyst, JPMorgan Securities LLC

I guess first on product. Maybe Patrik, can you speak to progress you’ve made regarding channel segmentation? 
And then Kevin as you talk about the momentum, maybe as we think about next year, how would you rank that 
excitement and momentum as we think maybe by category in terms of things that you really think will excite the 
customer on the product front?

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

Okay. Thanks, Matthew. I think when you think about segmentation, this was a big topic for us as we kind of 
exited 2017 certainly. And one of the benefits that we have with this more holistic end-to-end go-to-market that we 
built is the fact that that actually begins with segmentation. So we feel that from a category, gender, country, 
region, channel perspective and going forward for the brand, we’re now really in a good position in terms of 
segmenting our product across the world.

So you’ll see as we’ve turned the corner going into 2019, a really well defined segmentation for the brand and I 
think that’s going to further help us drive momentum and sell-through in the various channels that we have. Kevin, 
do you want to?
Yes. If I were specific in picking them, I'd say we've demonstrated the amount of runway we believe is still in front of us with things like our footwear category, HOVR is obviously exciting within the training and running platforms we have in there and you'll see training platform for HOVR begin to come to light as well.

Women's we think is a massive opportunity for us. And again both these businesses now are over $1 billion. And then training just overall remains a massive-massive opportunity. On the apparel side, we've also talked about our rush and recover technology which is active recovery. It's actually actively helping increase blood flow that enhances and increases the speed at which you can recover.

So this isn't just apparel or nice silhouette or better styling, it's actually a product that is living the definition – in the DNA of the mission and Under Armour is making it better. But probably one of the things I'm most excited about is I can argue, I don't think that we've – I wasn't crazy about our product in 2017. We like it much more in 2018. We're really excited about the way it looks in 2019.

But all along, I think one of the things that we lost more than anything is we lost our ability for storytelling. And when I think about 2019 and going forward, I really look forward to the ability to explain to people and communicate to them the number of scientists and Ph.D.'s and [ph] where testing hours (35:29) that go into every product that we build to understand the science and the DNA behind really thinking and empathizing with that consumer who is going to wear it of what we can do to put them in the best position to be excellent. And that's always been there, but I don't think we've done the best shot of telling that story.

And I think you'll see it A, begin to articulate itself through just really beautiful design and product that's really well-considered. But I think it's the whole package and so there's a lot of things to be excited about. Again, we have work to do and we have to demonstrate that we can run the play but the good news about this is that this is a play that is capable of being repeatable even regardless of who's in the chair right down to myself, so.
Yeah. Thanks Kevin. I think when we think about our accounts, our relationships, I think they're right now strong and getting stronger. And we are really focused on winning with the winners in those. That strength, that relationship also comes on the back of starting to service our business better and we're ramping that up very rapidly.

It's combination of servicing the business better, having a very clear defined go-to-market for the accounts, they understand where we're going, what we're doing, the storytelling we will be driving around our product as we move into the future and getting them excited about both the product and the story telling together, having the correct segmentation in the marketplace. They're starting to feel the confidence I think in our ability to make this brand as great as it could be. That ultimately I believe is driving a better relationship, right? I think the other thing is strategically we feel we're much stronger now.

We're able to speak to the accounts more longer term and we have a very defined pathways for each brand. And I think that's also building strong confidence for them and giving them a reason to believe in the brand, the theme and the product.

Matthew McClintock
Analyst, Barclays Capital, Inc.

Thanks. That's helpful. And then just one additional question, just on manufacturing vendor consolidation and a follow-up on the product cost improvement. Can you maybe talk to some of the benefit that you're getting from improving or consolidating your relationships with specific manufacturing vendors?

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

Yeah. This is Patrik again. I think, what's great about the work that Colin Browne has done in terms of that aspect of our business, it's really taking the same approach that we're doing on the front-end in terms of thinking about winning with the winners.

The environment for manufacturing around the world as you think about both apparel, footwear and accessories is changing pretty rapidly as we all know. And making sure that we have a flexible, agile, ability to produce the products that we create has been a really big initiative for us.

So, making sure that we have also the flexibility with the vendors, in other words having vendors that can flex, where they produce the product that they can flex the scale, scaling of how fast they can scale our various initiatives that we have has been a really important aspect of how we've thought about the vendor consolidation.

So, we believe we bet on the partners that can win with us going forward. And what you're seeing now is really the – that, some of that effort coming to life both in terms of our ability to execute to deliver the right product to the right place at the right time, but also in terms of how that's showing up in our costing and maybe I'll hand it over to you, Dave, and you can add some color there.

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

Yeah. I think that it's pretty powerful when you think about how we're attacking it from different lenses. When you have the vendor consolidation being coupled with better transparency with how we negotiate the costing with our
vendors and really driving that costing down through the consolidation of the vendors and the transparency of which we negotiate, coupled with the fact that we’re also really digging in deep on our pricing and how do we attack our markdown cadence, our promotional cadence, our initial ticket pricing to really maximize profitability and market share going forward. So, when you combine all those three things together, you're really starting to see some of the impact of that in Q3 of this year and Q4 of this year, and we're excited to keep driving that through as we go forward.

Matthew McClintock
Analyst, Barclays Capital, Inc.

Thanks a lot. It's great to see it all coming together.

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

Thanks, Matt.

Operator: Thank you. Our next question comes from the line of Jim Duffy with Stifel. Your line is open.

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

Thanks. Good morning, guys. Nice evidence of progress.

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

Thanks, Jim.

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

Thanks.

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

Dave, you talked some about the inventory numbers. Can you talk about where you see the quality of inventory right now, and what that should look like as we enter 2019?

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

Yeah. I mean, obviously, we've talked a lot about the magnitude of the overhang we had coming into 2018 and we've aggressively been working that down. I think that we've been attacking North America the most first; international, we're going to be working through a little bit further next year. So, we would expect it to continue to drive some improvement there.

But it's really a holistic effort. I mean, you've got a much tighter go-to-market process and much tighter supply chain relative to the forecasting side, demand side, the timing of inbound receipts versus outbound, the processing efficiency within our DHs and maximizing the DH base that we have. So it's really a combination of all fronts between a GTM supply chain and all the way processing through. So we are excited to see the improvements. I mean, it's fairly dramatic when you think about starting back at Q3 of 2017 we're at 22% growth.
and Q4 2017, 26%; Q1 2018, 27%; and then now working it all the way down to a negative one this quarter and planning for flat to slightly down by end of year. So by no means are we going to stop there. We got more work to do in 2019, and Patrik and I and the teams in supply chain are all going to be working through that together.

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

Yeah. Maybe I'll add. Jim, I'll just add a little bit of color on that as it relates to the planning aspect of what we do going forward. It's not just about the inventory you have, right; it's about the inventory you build as well. So one of the things I'm really proud of is how the team has pulled together and also now in the new operating model really driving a much better demand planning going forward, as well as our supply planning.

So really taking a holistic view end-to-end also in that respect, which is certainly helping us become a tighter company like Dave said and really holding together through the entire go-to-market.

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

Great. The margin progress is encouraging. Recognizing that clearance has been a component of the revenue base, can you guys help us think about that as we consider revenue trajectory for 2019? Does that clearance base represent a hurdle you need to jump over?

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

Well, I would say that with the amount that we've done through third-party off-price this year, we probably will be looking to normalize that level a little bit more going forward. So that is something that we're going to be incorporating into our discussions on 2019 and we'll give more color to that on Investor Day.

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

Thank you.

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

Thanks, Jim.

Operator: Thank you. And our next question comes from the line of Edward Yruma with KeyBanc Capital Markets. Your line is open.

Edward J. Yruma  
Analyst, KeyBanc Capital Markets, Inc.

Hey, good morning, guys. And thanks for taking the question. I guess, first on footwear you guys have done a really great job kind of generating heat around some of these limited batch releases like Project Rock. I guess how successful do you think you've been in translating some of the strength of the Halo product to the rest of footwear portfolio?
And then I guess second, obviously e-com will be big this holiday season. I guess, how do you think you're positioned there? How should we think about your capability sets? And is there anything we should expect that will be an improvement versus the e-com experience last year? Thank you.

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

Yeah. Hi. Thanks, Edward. I'll start off and then I'll hand it off to Kevin because I'm sure he would love to add some color on the product. But from a process perspective and in terms of how we think about driving our direct-to-consumer business. Back half of the year, like I said before we're heads down delivering on 2018 now I think as it relates to both North America and also some really important events coming up in China around 11/11 and so forth.

And we feel ready. We feel that we have the right level of inventory, we have the right plans in place. We learned a lot last year. We had a bit of a rough time last year as we were working through both our operating model and in general our entire supply chain transformation. This year, we feel much, much better.

We have improved our service levels increasingly throughout the year and we feel we're coming into Q4 ready both from a messaging perspective, as well as a supply chain perspective. And we feel that we have the right product that will be on the shelves. So that's kind of how we feel about running into — head into Q4.

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

And I'd just add in footwear, it's interesting just understanding this industry. And it'll be our 13th heading in our 14th year as a public company next month, so just a couple of weeks we'll celebrate that anniversary. And you just look at the things that you've learned and thinking of starting an apparel sporting company, and what it means to be a footwear company. It is a long road and the barriers to entry are incredibly high especially when you're trying to do that at scale.

And so from a company that was trying to launch 0.5 million or 1 million pairs of shoes to now being in the 40 million-ish kind of a range with what we're building, we want to keep it special. And the one thing we're doing is that we're certainly playing the long game. And we have learned some massive lessons and while those lessons have been what Patrik spoke about with some of the vendor consolidation and how do we make sure that where we're doing business, it's really meaningful impactful, and that we can have the A teams that are working on our products because footwear is one of those many things defined by the last 10% or the last 5%, and making sure that we finish there.

But when you go back a year, we didn't have the capacity for — the franchise capacity. I don't think it's something that we mastered beyond the product building. We continue to see the progress that we're making, but it's now having things like HOVR, is having the Phantom and the Sonic platforms. It's the Project Rock, it's the Highlight and the Spotlight on the cleated side of our businesses. It's the Fortis, it's the Curry franchise. And again we learned a lot of lessons with introducing the Curry 1, we learned a lot of lessons on the Curry 3 and now having the Curry 5 and heading into Curry 6, you're really beginning to see the cadence build in our partnership with Stephen is one that we're learning how to do this. And then, we also have the added opportunity for these moments like we just did with the Forge 96 which was a limited release product that sold out almost immediately.

And the most important thing, I think, is the story. We've just gotten much, much better at the story. And if we have the opportunity to put this together, it articulates through things like our Portland headquarters where we're in this business, we're not going anywhere. And we understand what that means, resilience is how I started the
first question on this call out with. And I’ll say that we’ve been resilient in footwear. We have certainly taken some lumps and we have learned a lot of lessons, but we’re in position, and again, I want to overemphasize, this call – it’s – we’re pleased – we’re appreciative of the reaction, but we understand that our heads are down. We still have a lot of work to do, and we’re going to keep making this incremental progress that hopefully just makes us better and better each and every day.

Edward J. Yruma
Analyst, KeyBanc Capital Markets, Inc.

Great. Thanks so much, guys.

Operator: Thank you. And our next question comes from the line of Lauren Cassel with Morgan Stanley. Your line is open.

Lauren Cassel
Analyst, Morgan Stanley & Co. LLC

Great. Thanks so much for taking my question. I just wanted to ask about wholesale versus DTC growth going forward as part of your broader strategy. Is low-single digit wholesale growth and mid to high single digit DTC growth the right way to think about the two pieces over the medium term? Or do you see a scenario where wholesale is flat to perhaps down slightly and DTC accelerates into the double-digit range? I would think that you would see some nice margin mix benefits from that as well. So any color on that strategy would be great. Thanks so much.

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

Hi, Lauren. I think, Dave, you’ll start off, I think right? Go ahead.

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

Yeah. I mean, I think Lauren again relative to this year, we’re pretty clear on our expectations and we’ve been holding that pretty tight throughout the year on the mix of wholesale and DTC, and how we drive that through. There’s obviously been some puts and takes as we move through the year, but we feel pretty good about that and we feel pretty good about where we stand with our DTC plan for Q4 of this year. But relative to 2019 and beyond we’re going to be a little bit more careful on how much color we give there at this point, but I’ll turn it over to Patrik.

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

Yeah. We’re excited about our opportunity I think as it relates to both wholesale and direct-to-consumer. We do believe that in North America we’re underpenetrated from a direct-to-consumer perspective. And as we are – we have very strong intent to continue to drive a premium brand in the marketplace we believe that the direct-to-consumer full-price store portfolio also plays an important part in that. So you’ll see us investing into that going forward in the same way that we continue to invest into that premium experience around the world. Kevin and I were just down in Mexico a little while back here opening our 1,000 store, and we clearly see an opportunity for us to continue to drive that part of the business. And we also continue to do a better job of our CRM capabilities helping drive our e-commerce business not just here in North America, but also around the world.
I think it's the balance between the three components that we continue to calibrate. Wholesale is still a very, very important part of our business especially here in North America, but we're looking forward to painting a picture for you guys when you get here in December, of how we think about this going forward. But it's very exciting. We see a great opportunity for us to strengthen ourselves as it relates to premium positioning by showing-up better in the direct-to-consumer channel going forward.

Lauren Cassel  
Analyst, Morgan Stanley & Co. LLC

Okay. Great. Thank you so much.

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

Thank you, Lauren.

Operator: Thank you. And our last question will come from the line of Michael Binetti with Credit Suisse. Your line is open.

Michael Binetti  
Analyst, Credit Suisse Securities (USA) LLC

Hey, guys, good morning. Thanks for all the details, Dave. Really helpful. Let me ask on direct-to-consumer. Would you mind just helping us click down a little bit on some of the color related to the outlets versus e-commerce in the quarter? Maybe help where did you see the slow down and how should we think about which components will grow slower maybe for a few quarters versus some of the headwinds that could unlock in the near term to reaccelerate? I'm thinking maybe there's a correlation between the inventories coming down so much and what you saw in the outlets and maybe you could help add a little clarity there.

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

Yeah. I mean, Michael, I think, when you think about as we play out the back half of this year, DTC was flat in Q3, but we are expecting it to return to growth in Q4. We plan to be less promotional and we've been working through that. So that was a little bit tougher comps in Q3.

We will be less promotional in Q4 versus last year, but that differential may not be as large as it was in Q3 and prior. So, that comp isn't going be as difficult. So, we've been playing the business this way, we're continuing to drive through. We're continuing to invest in our DTC presence internationally, and seen a lot of good momentum there.

While in North America, we remain focused on optimizing our current footprint and protecting our brands through moderated discounting and focusing on kind of prudent profitable growth. And when you think about, again Q4 with DTC, a lot of that was around door opening timing, a lot of it was around new product launches and a lot of it around the promotional cadence of why we feel good about Q4.

Michael Binetti  
Analyst, Credit Suisse Securities (USA) LLC

Okay. Let me -- since you've mentioned spring 2019 a couple times on this call and I know we'll get into a lot more the multi-year outlook at the Analyst Day. But I guess, if there's one thing that we feel that we hear a little bit of
tension on it's – those people who watch some of the industry data in the U.S. would posit that the sporting goods channel has been fairly negative for you guys on a wholesale basis.

Really since Sports Authority went away, and I know that caused some problems in the channel. But as you look out next year, how can you help us think about how to override a long-term business reality that is your buyers in your sporting goods retail channel would typically turn to keep buying forward seasons lower on a year-over-year basis until they see current sales trends and sell-throughs turn positive on a year-over-year basis. You sound like you have a lot of optimism around Spring 2019, but that historical norm could be upended. You sound like you have some products coming, but can you just help us think about what the big unlock is for Spring 2019 that's so much different as we look at the sporting goods channel in the U.S. in particular?

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

Hi, Michael. This is Patrik. So you're absolutely right. So here's the deal. We are caught in the calendar, right? I mean, to some extent, when you're in this business, you are only as good as you last season, right, to some extents. And when you've been in a down trod for a while, you got to build it back up and it's just the nature of the beast.

We feel really excited about Spring 2019, simply because we believe our product is better, our storytelling is better and we're going to start to march back. You can't do that off-cycle. It just happens exactly like you said, if you've had a few seasons of poor sell-throughs, you've got to build it back up and that's why our business is – the nature of our business is cyclical.

What we're excited and the reason we're excited is because we believe like we've said here on this call today that our product is better, our storytelling is better, our ability to execute is better and all of those things together we believe is going to start to drive healthier sell-throughs for the brand. And that's in all channels and that's all across the world.

So – and then you need to build that back up, or – because to your point, right, I mean the buyers in the wholesale channel for example, they are only buying in the rearview mirror which is their job, right? I mean they're trying to optimize what happens in their stores, and they do that by looking at the numbers that they're currently seeing. So, that's how it works. So I'm very hopeful that we're going to get you guys excited when you get here in December, because we've got some great stories to tell.

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

And hey, Michael. If I could jump on and maybe call this a bit of a closing comment too, but...

Michael Binetti  
Analyst, Credit Suisse Securities (USA) LLC

Sure.

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

I think what's really exciting is that in thinking about just the growth and building this company, it really came down to a lot of strengths and sort of forces of personalities, forces of will, forces of nature, and what we're building is the ability for our business to be repeatable.
And when I look back and I say, I don't know how great our product was in the last couple of years or how great our storytelling was, this isn't about any individual. This is about the team that we have in place is the team and you're seeing some great leaders also step up in our organization.

But it's not to look back and say we almost had the wrong people. I just think we had the wrong process, and that we pushed so hard in order to build this engine and now we're at a moment in time where we're really getting to refine and to put a real plan in place – to put play in place that we can – everybody knows what it is. We can call it. We can run it. We can do it on a consistent basis, and I keep using the word repeatable that we can make it happen over and over again for us and that we have the ability to know what's coming and that our consumer then knows what's coming, and all that timing begins to align, and I think that's what'll make us a better organization.

That being said there's still a lot of parts of our organization, parts of this company and parts of our culture that are still in constant evolution and we're really proud I think of the progress that we've made, but we also look and really we're beginning every day from what we're going to call day one. And this day one is we're really proud I think of where we are.

I think today is a good indication of what that progress has meant, but we have – we really have a great opportunity and I'm excited for our team and I'm appreciative because this is really a great reflection. The team we have around us as well as the work that Dave and my partner Patrik here and our executive team too. So, we look forward to telling you more about that on December 12. Thank you. Thank you very much, everyone.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Thanks a lot.

Operator: Thank you. Ladies and gentlemen, this concludes today's question-and-answer session. Thank you for participating in today's conference. This does conclude the program. You may all disconnect. Everyone have a great day.