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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen and welcome to the Under Armour second quarter earnings conference call. At this time all participants are in a listen-only mode. [Operator Instructions] Later we will conduct a question-and-answer session and instructions will follow at that time. As a reminder today’s conference is being recorded.

I’d now like to introduce your host for today’s conference Mr. Lance Allega, Vice President, Investor Relations. Sir, please go ahead.

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

Thank you and good morning to everyone. Thanks for joining us on the call to discuss Under Armour’s second quarter 2018 results. Participants on the 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 information including adjusted in currency-neutral terms, which are defined in this morning’s press 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 on 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 our Chief Financial Officer, Dave Bergman. Following our prepared remarks, we'll open the call for questions.

And with that I'll turn it over to Kevin.

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

Thanks, Lance. Good morning, everyone and thank you for joining us. Today's results demonstrate that we are tracking well against our multi-year transformation to build a stronger, leaner and more operationally excellent company. A company that is capable of supporting the incredibly strong global athletic performance brand that our team works tirelessly to cultivate, a brand that loves athletes, a brand that stays true, creates fearlessly and stands for quality, one that fights together things beyond the obvious and is driven by a global team committed to the advancement of human performance. As a human performance company, Under Armour's mission is to make you better.

Over the past 18 months, we've been working to make ourselves better, better as a company by methodically and aggressively driving through a substantial evolution of our operating model. And while this work is not yet completed, the strategies and tactics for executing are producing greater agility, sharper decisions and a tenacious view toward generating more consistent results through repeatable processes.

As we proactively address some of the underperforming areas of our business, including SG&A and infrastructure investments that were beyond our growth, improving our distribution and right-sizing or inventory. We are simultaneously continuing to invest smartly in innovation in our digital, DTC and international businesses. To ensure the most optimal navigation through this terrain, balance is critical, as is making sure that we are thorough and holistic in this endeavor.

Through expanded actions within our restructuring plan which Dave will discuss later, we are demonstrating this balance and discipline. And as we continue to dig aggressively into all areas of our business, operationally, creatively and financially, we are 100% cognizant of keeping our consumer, customer and shareholder commitments in equilibrium.

More than halfway through 2018, let's take a moment to update the progress we've made against some of the larger transformational actions we're executing against in terms of product, story, service and team.

Starting with product and story, when we build great product that delivers on UA's STF, style, performance and fit, and then connect that deeply with consumers through inspirational and relevant storytelling, we win.

Starting with deep insights for delivering industry-leading innovation that empowers athletes to perform longer, faster and stronger, a few highlight so far this year include the launch of UA HOVR Phantom and Sonic running shoes. Our Project Rock and Misty Copeland training collections and the Curry 5 basketball shoe, all of which have experienced strong sell-through and are driving meaningful brand awareness, consideration and demand.
Supported by three comprehensive digital global campaigns, we’re successfully rewriting our playbook with return-driven strategies.

These examples are also demonstrative of our commitment to performance in the largest category growth opportunities that we are focused on, especially running, training and basketball.

Speaking of basketball, congratulations to Stephen Curry, who added his third NBA championship title in the past four seasons, coupled with his two MVPs, Stephen is a powerful Under Armour ambassador who continually raises our game as much as his own. With an insatiable quest for improvement, speed and advantage, his work ethic and partnership push us to be our very best every time we show up.

Looking into the second half of 2018, we’re also focused on improvement, speed and advantage. As we shift from a 21-month to a 16-month go-to-market calendar, the productivity gains we expect to see from SKU rationalization, supply chain initiatives and overall process efficiency, our confidence inspiring as we look to the future.

Knowing the product innovation pipeline ahead of us, along with the changes we have made to drive better assortments, tighten our inventory position and improve product flow, each subsequent season gets sharper and markedly more capable of meeting the highly discerning expectations of Under Armour consumers.

With our product and story-telling engine beginning to fire on all cylinders, we must also deliver impeccable service and seamless consumer experiences, blending data and analytics from our global segmentation study with an intimate understanding of our consumer’s journey.

Our refined go-to-market strategy is taking hold and should prove to be a key catalyst in establishing our next chapter as a great company. Supporting that evolution is how we serve our consumers, whether directly or through our wholesale partnerships around the world whenever and wherever they engage our brand.

The significant ERP system upgrade with SAP that we did last summer, along with our ongoing supply chain initiatives, give us improved decision making and a better ability to manage our inventory. This increased stability, improved planning acumen and enhanced capability, enable us to fine-tune and hone all aspects of our product cycle.

And finally, over the past year-and-a-half, this team has embraced significant changes both external and internal, with the goal of becoming a great company capable of supporting our great Under Armour brand.

Our team has been running, pushing and digging in deep to ensure that we fully capitalize on this chapter to transform our company for future growth. Part of this change was recognizing the need for a seasoned veteran and partner to spearhead this transformation. Patrik Frisk, our President and COO, hit his first-year mark a couple of weeks ago. Along with Dave Bergman and our executive leadership team, Patrik has been instrumental in helping us transform our operations and strategic playbook.

From category management to our go-to-market strategy and regional alignment, we’ve been changing the way we operate to become better. In the context of our transformation and where we are, we see the second and third quarter bottom line being the most negatively impacted by our planned restructuring charges.

We are proactively making these difficult decisions on behalf of the long-term best interest of the brand. Now while transformation is never easy, our strategies are set and we are driving forward against our plan with our
heads down producing and executing, and all the while keeping the strength of the Under Armour brand paramount in this ambition.

We are resolute in our goal to architect the long-term operating and financial model capable of driving sustainable, profitable growth and return to our shareholders. And in that respect, we look forward to holding an investor meeting here at our global headquarters in Baltimore on December 12. At that meeting, we'll provide an in-depth overview of our long-term strategy and the key initiatives designed to drive growth and profitability through 2021 and beyond.

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

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

Thanks, Kevin. Over the last year we've learned a tremendous amount about ourselves as a team and organization and ultimately as an evolving integrated ecosystem. Now, on the other side of standing up our category management structure, implementing new systems and reengineering our go-to-market process, we're on the path to becoming a more efficient and effective company.

Our playbook is working [indiscernible] progress is being made and we are putting ourselves in the best position to serve our consumers, customers, and shareholders. Building on Kevin's earlier point, key to executing this transformation has been our culture. Our scrappy entrepreneurial DNA has been an absolute asset to striking the right balance between aggressive near-term actions to correct inefficiencies and long-term structural moves to produce repeatable scalable outcomes. With these in alignment, we're on the right path to reaching our true potential in the upcoming years.

To highlight one successful near-term strategy, on our fourth quarter call in February, we identified higher inventory levels that were built to support the second half of 2017, which didn't materialize the way we had originally anticipated and we plan to work down in the first half of 2018, and we expect meaningfully elevated inventories on the mid-year growth rate that was consistent with our 2017 year and the increase of 26%.

Now on the first quarter call, we adjusted our mid-year expectation to be up less than 20%. This morning, we announced that an 11% increase in inventory, a result that should demonstrate to you our commitment to setting ourselves up for a healthier marketplace in the second half of 2018 and beyond. And that's just it, getting healthier, leaner and stronger, with our customers who want the most current assortment, improved service levels and turns, and with our consumers who demand newness, innovation and availability or in some cases, scarcity.

The additional inventory management actions we choose to employ don't of course come without a cost, which you can see flowing through gross margin in our second quarter results and full year expectations, short-term pain for long-term gain. We are managing the marketplace with more prudence and discipline. This improvement in trend is not done, as we expect high single-digit inventory increase at the end of the third quarter, right on track for our goal of being up at a low-single digit rate by the end of the year.

All in, this proactive inventory strategy combined with the supply chain initiatives that we've discussed on previous calls around tighter inventory buys, SKU materials optimization and vendor consolidation, gets us closer to a pull model and line of sight toward longer-term margin improvement opportunities.

With respect to longer-term transformational strategies, following the adoption of our category management structure, new systems and our reengineered go-to-market process, the next logical step was to better align our
regional operating model specifically to three international regions. With the appointments of Jason Archer, as Managing Director of Asia-Pacific; Manuel Ovalle, Managing Director of Latin America; and Massimo Baratto, as Managing Director of EMEA; along with the continued leadership of Jason LaRose, who leads North America, our original structure is set.

Uniformity and coordination across our four regions, an architecture that reports directly to me, ensure strategic operational and financial discipline to play the long game with respect to driving optimal business results and leveraging scale while protecting our brand.

With that, let's touch on how each of our regions performed for us in the quarter. Revenue in North America was up 2% or 1% currency neutral. This result was slightly better than our original expectation due to additional inventory management actions and better-than-planned service levels. In EMEA, revenue was up 25% on a currency neutral basis with strong growth across the wholesale and direct-to-consumer channels and particular strength in the U.K., Germany and Spain.

Currency neutral revenue in Asia Pacific was up 28%, with strong balanced wholesale and direct-to-consumer growth and continued strength in China, Korea and Australia. And finally, revenue for Latin America was up 12% currency neutral and in this region, we remain focused on optimizing our mix of the right partners and business models across the portfolio.

So, to wrap it up, after my first year at Under Armour, I'm extremely proud of the work we've done and appreciative of the partnership between Kevin, Dave and myself. We're making the tough decisions to transform this company from a great brand with good operations to a great brand with great operations.

And now I will turn it over to Dave to review our financials.

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

Thanks, Patrik. To start, I'd like to provide an update to our 2018 restructuring plan and the one-time items that impacted our second quarter and will impact our full year. In February, we announced the restructuring plan of approximately $110 million to $130 million in pre-tax restructuring related charges for 2018. In the second quarter, we recognized $85 million of these charges, including $64 million in cash and $21 million in non-cash related items.

During the quarter, we identified approximately $80 million in additional opportunities to better align our cost structure with our long-term goals. Inclusive of these opportunities, we now expect our 2018 restructuring plan to be approximately $190 million to $210 million. It's important to note that the majority of these new items are related to additional long-term contract, facility and lease terminations of which the larger benefits impact 2020 and beyond.

We continue to analyze our evolving cost structure and refine our plan. Accordingly, we anticipate completing our diligence and recording all related one-time charges by the end of this year. With respect to the approximate $75 million in annual savings that we previously cited for 2019 and beyond, while we do anticipate this amount to increase we are not prepared to get more specific at this time as we assess the right balance of reinvestment into areas including marketing, innovation and our DTC and international businesses.

Moving on to our second quarter results, I'll start with revenue, which was up 8% to $1.2 billion, or up 7% if you exclude the impact of foreign currency. By channel, our wholesale business was up 9% to $710 million, driven
primarily by inventory management initiatives, including increased sales to the off-price channel as well as continued strength in our international business. Direct-to-consumer revenue grew 7% to $414 million, driven by continued strong results in our international and e-commerce businesses. DTC was 35% of total global revenue in the quarter. Licensing was down 16% to $21 million due to softer North American demand.

By product and segment type, apparel revenue increased 10% to $747 million, driven by training and running. Revenue for our footwear business increased 15% to $271 million, driven by running and team sports. Revenue for accessories decreased 14% to $106 million, due to softer demand and actions to optimize our distribution. And finally, our Connected Fitness business was up 12% to $29 million, driven primarily by increases in [ph] subscription (00:16:04) revenue.

Turning to gross margin, on a GAAP basis, we saw 110-basis point decline to 44.8% in the second quarter, as inventory management initiatives flowed through the P&L. Excluding the restructuring, which contained about $6 million of inventory impacts, adjusted gross margin was 45.3%. To walk through the components, adjusted gross margin was negatively impacted by approximately 240 basis points of channel mix due to a higher composition of off-price sales related to inventory management initiatives. This was partially offset by about 170 basis points of benefit from product cost improvements and changes in foreign currency.

SG&A expense increased 10% to $553 million, driven by continued investments in our DTC, footwear and international businesses, along with a reserve related to a commercial dispute. Additionally, there was a meaningful shift in marketing expenses associated with our new training campaign into the second half of the year. Inclusive of $85 million of planned restructuring charges recorded during the quarter, our operating loss was $105 million. Excluding the charges, adjusted operating loss was $20 million.

Interest and other expense was $17 million, which was impacted by changes in foreign currency. Our effective tax rate for the second quarter was 22%. Excluding restructuring charges and a refinement to our 2017 one-time U.S. tax reform impact, the adjusted effective tax rate was 8%. As a reminder, the weight of discrete international items recorded in certain foreign markets are particularly impactful to our effective tax rate in periods like the second quarter, which had smaller consolidated pre-tax income or loss levels.

Taking this to the bottom line, net loss was $96 million and diluted loss per share was $0.21. Excluding restructuring impacts, adjusted net loss was $34 million and adjusted diluted loss per share was $0.08.

On our balance sheet, cash and cash equivalents were up 19% to $197 million. Total debt was down 18% to $779 million. Capital expenditures were down 59% to $34 million and inventory was up 11% to $1.3 billion, a significantly lower growth rate versus last quarter.

Turning to our 2018 outlook, we now expect full year revenue to be up approximately 3% to 4% with international growth of greater than 25% being offset by a low-to-mid single digit decline in North America.

From a product perspective, footwear is still expected to grow at a low single-digit rate. Apparel is now expected to be up at the mid-single-digit rate, reflecting additional inventory management actions. And within accessories, given softer demand and work we're doing to optimize our distribution, we now expect a low single-digit rate decline for the year.

Given the strategic decision we made to accelerate our inventory management actions, coupled with changes in foreign currency headwinds that we're facing in the second half due to the strengthening of the U.S. dollar, we're expecting our gross margin to be in line or down slightly against last year's 45%. Excluding the restructuring...
charges, adjusted gross margin is now expected to be up slightly, as benefits from product costs and lower planned promotional activity are offset by inventory management actions.

SG&A is still expected to grow at a mid-single-digit rate. Given the expansion of our 2018 restructuring plan, we now expect an operating loss in the range of $50 million to $60 million. Excluding the restructuring, there’s no change to the expectation that adjusted operating income will reach approximately $130 million to $160 million.

And finally, with no change to our expected 25% to 27% full year adjusted effective tax rate, adjusted diluted earnings per share stays in the range of $0.14 to $0.19 for 2018.

With respect to the balance of the year, we expect third quarter revenue to be in-line to slightly down versus last year. Third quarter adjusted gross margin is expected to be down approximately 50 basis points due to continued inventory management action. This should be followed by an expected fourth quarter improvement due to anticipated lower composition of off-price sales and higher DTC mix, coupled with continued product costing improvements, primarily due to supply chain initiatives.

SG&A is expected to be up at a mid-teens rate in the third quarter, driven by the marketing shift I mentioned earlier and continued efforts to support our global UA HOVR and training campaigns as well as store expenses associated with the expansion of our international DTC. Third quarter adjusted operating income is expected to be approximately $75 million to $80 million and adjusted diluted EPS is expected to be $0.11 to $0.12.

Finally, Patrik walked you through inventory, but to revisit, we were up 27% at the end of Q1, up 11% as of June 30, and Q3 should be up at a high single-digit rate, on our way to a low single-digit increase by the end of 2018.

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: [Operator Instructions] Our first question comes from the line of Randy Konik with Jefferies. Your line is now open.

Randal J. Konik
Analyst, Jefferies LLC

Yeah. Thanks a lot. Question for Kevin and Patrik. Can you give us your – both give us your thoughts on how you see the overall state of the business and health of the Under Armour brand? And then, you continue to tell this nice story of being a better-run company and as that continues to unfold here, maybe give us some color on what kind of KPIs you're looking at to measure yourselves against, to continue to get better and better each quarter here? Thanks guys.

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

Yeah. Hi, this is Patrik. I think, in terms of the state of the business, I think, what you're seeing now is definitely a stabilization, right, and especially as we look at our North America business. We feel very good at where we are right now in North America and really confident as we look ahead. And as it relates to the brand, since I got here a year ago, we've invested heavily into consumer insights. We've given you guys some information around the work that we've done around global segmentation, understanding where the consumer is in relation to the brand and we're measuring ourselves and holding ourselves accountable to the measurements that relates to that work that we've done. So we're looking very deeply at things like brand awareness, consideration, across the world.

And I think, one of the great things that we're seeing right now in North America, for example, the brand is stable. And in our international regions, both brand awareness and consideration is growing very fast. So this get big fast strategy that we've in North America and also having now in international, and the way that we're rolling out, for example, in China, the premium expression through our Brand Houses is certainly paying off, in combination with the increased marketing spend around, being truly 360-degree digital. And we believe that's one of the things that's really starting to move the needle for us.

So we're holding ourselves accountable to the KPIs and we'll talk a lot more about this at the Investor Day towards the end of the year. But we're very, very confident of where we are right now. And with the operational work that we're doing around making sure that we have the right amount of SKUs and that we're able to drive higher efficiencies in the backend in terms of how we think about the number of vendors we have and our cost base, we're feeling really, really confident. So I don't know, Kevin, if you want to add on a little bit to that, perhaps.

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

Yes. Thank you, Patrik, and Randy, thank you for the question. And I'd like to start by just saying that we're incredibly sober as we think about you asking that question to us. What I'll tell you is this, is that number one, I believe as well as I do many others believe that Under Armour is a great brand, I think we've proven that. And one thing is certain is that great brands endure and they see many chapters in their lives and we certainly lived several of those through our first 13 years or nearly 14 years as a public company.
First and foremost, I want to reiterate the fact that we are playing the long game and what we’re relying on is the strength of the innovation pipeline. A, that we’re putting out to market and you’ll see it more in more and continue to accelerate and watch that momentum drive. And one thing that is certain that we’ve learned over our 20-some-year history as a company is the great product wins. That is it at the end of the day and that’s what established and built this brand. But in addition to a great product, we’re now also driving operational discipline. We’re looking to make it a true core competency for the business that I believe and we believe will really truly unlock the creative potential that this company has. And the good news is that we’re making great progress against it.

And so, hopefully, you see that through things like our inventory initiatives that we’re attacking. What we believe in and the proof point of that is when we do make great product, the consumer comes and HOVR is probably a great example, and we’ve used that a lot. But the fact is we put product in the market in the first half of this year at $110 to $140 price point and we sell great sell-through in product that the consumer is in high demand for.

We call that the trifecta. I mentioned in my script, the style performance and fit. When we get those three things right, we’re going to win. The brand position for Under Armour is really simple. We have a reason for being, and when you think about brands, because when we say great brands will endure, the reason for Under Armour is that every product does something. We lean on this performance mentality as a company and as a business is because when you put up a Under Armour product on, your natural question should be, well, what does it do?

And the fact is it should make you better. We’re also an authentic story founded on the field of sport and that's something we think that grounds us for a very, very long time. Our ambition that we have as a company is to be the world’s greatest performance brand, and we believe that, that mindset, as we said before, is going to prove to be our most important strategy. And we’re looking forward to expanding on that as well at our Investor Day in December.

Randal J. Konik
Analyst, Jefferies LLC
I appreciate the color guys. Thank you.

Operator: Your next question comes from Edward Yruma with KeyBanc Capital Markets. Your line is now open.

Edward J. Yruma
Analyst, KeyBanc Capital Markets, Inc.
Hi, good morning, guys. Thanks for taking my question. So, I guess first, you had touched on this in your last answer, but obviously, some good storytelling on footwear. Outside of Curry, Project Rock and HOVR, how broad-based is the strength or are those three franchises driving the growth? And then second, I noticed in the cash flow statement there was a purchase of equity method investment, so wanted to understand what that was? Thanks so much.

Patrik Frisk
President & Chief Operating Officer, Under Armour, Inc.
I'll take the first part of that and then you can tap in on the equity part too. Yes, there is a broader success for us in footwear. We talked a lot, of course, about our marquee initiatives that are driving the top end, but the reality is, as we have talked to you guys about before, our segmentation wasn't done as well as it could’ve been done, I guess, if you look back into the end of 2016 and early 2017, as we did increase our distribution into more channels. We believe that as we turn the corner into 2018, the distribution segmentation has been more optimized and we're seeing great success at other price points too. Kevin mentioned HOVR at $110, $140. And Curry is of
course is up there too, as well as Rock, but when you look below $100, we also have seen great success and great traction also at the $80, $90 price point. So there is more foundational success there in footwear than we usually talk about and we're looking forward to giving you a little bit more color on that as we work towards Investor Day. And as we think about the future, we're working, of course, to make sure that we're optimizing that segmentation globally, which is also starting to show us that we can be competitive across the range as it relates to both channel and price when we segment correctly. But it has to be the right SPF, style, performance and fit, like Kevin said. We make a great product, with the right design, we win.

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

Yeah, and I'll just pile on that which is, I think, some of the learnings that we've had as building this brand is, one thing that is certain is driving franchises. And so you hear us talk about our marquee franchises up front and so driving Rock product at $130, $140-plus price points, Curry at $130, HOVR Phantom at $140, those are things that have certainly worked for us, but we continue to drive price points as well in things like cleated.

It's important that we win there. It's important that we continue to drive and bring innovation. And beyond it are some of the things that you don't hear about a lot and it's our Fortis and Slingflex and Shift and Rogue that we're getting price points. But we're not down to where we want to focus in some of those marquee price points, particularly as it relates to the appropriate distribution, and hitting that sweet spot at $90 price points in sporting goods and some of the other things that we can push in with the mall guys.

So we've also, I think, driven a bit of innovation through places like our UA Icon project, so being relevant. And this is a product you can go online and you can order product and you can custom-make footwear for yourself and it will deliver within four weeks. And so, we're quickly looking to drive that timeframe down, and getting it into something where consumer can order it within just a few weeks. So we're pushing that. And I think also we've seen a lot of white and bright spots from places like our Sportstyle collections, 24/7, Drift, RailFit, Remix and some of these other franchise that we've been building.

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

This is Dave. To the second part of your question on the equity investment that's in the cash flow, what that relates to is, if you recall, we have a licensed partner that runs our business for us in Japan. They've been a phenomenal partner for many years and we had a small interest in them. We increased that interest to 29.5%.

As their license agreement was coming up for renewal, we thought it was a great time to take advantage of that, renew, increase our ownership and with that also bolster our shareholder agreement to make sure we even had more protective provisions involved as we continue to work with them and expand in that region. So we just took advantage of that opportunity and that's the increase that you see in the equity method.

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

Great. Thanks so much, guys.

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

Thank you.
Operator: Your next question comes from Bob Drbul with Guggenheim Securities. Your line is now open.

Robert Drbul  
Analyst, Guggenheim Securities LLC

Hi. Good morning. Just wondered...

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

Good morning.

Robert Drbul  
Analyst, Guggenheim Securities LLC

Good morning. Can you talk a little bit about the women's business and the progress you're making there? And I guess, the second question is, you mentioned getting some of the product cleaned up through off-price. What is the level of off-price and where do you see that if you look out, 12 months from now as well? Thanks.

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

So, hi, Bob. This is Patrik. I think, as it relates to women's specifically, we've done a similar work in women's that we've done in our other product categories as it relates to making sure that as we move forward we're segmenting that product better.

We're being more diligent about how we think about SKUs, how we think about innovation, and we're seeing a rejuvenation in our women's business, especially as we look into our international business. And we're very bullish about where we see that business moving in the future. It's still a great opportunity for us. And I believe that as we think about -- especially, the work that we're doing with our international teams in China and in Europe, that is an enormous opportunity for the brand across many different silhouettes and also across our footwear.

One of the great things about the HOVR that Kevin talked about before that's both a men's and women's silhouette, and they're working well for both genders. So it's not just an apparel initiative for us anymore, it's truly a head-to-toe approach. And we're feeling that we're getting the traction when we have the right product with right segmentation, right marketing in the right channel. So, feeling really good about that. I don't know, if you want to add something about inventory, Dave.

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

Yeah, Bob. Relative to the inventory, I think, sales for the off-price channel are probably more of a peak in Q1 through Q3 and then tapering off a little bit in Q4 as we're getting ahead of it. So we're, I would say, full year is slightly higher than prior year relative to that channel, but it's really helping us drive down the overhang of inventory that we spoke to relative to 2017 and setting ourselves up to be clean going into 2019. And the off-channel partners that we've used have been fantastic partners and how we work through that.

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

I think, if I just to add some color to that Dave, I think that the other thing that we're also doing is we're making sure that our future buys are getting tighter as well. So, we're really working to make sure that operationally, we're
tightening up our operating mall to ensure that we're buying the right amount of inventory going forward, to ensure we're not getting into the same situation again.

Robert Drbul
Analyst, Guggenheim Securities LLC

Great. Thank you, Bob.

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

Thanks very much, Bob. We just want to make sure that we understand the opportunity we have in women's is, obviously, one of the largest white spaces we look at as a company. We've also been able to establish a $1 billion business there, but we recognize that we've been somewhat inconsistent. What we do have there is we own the base layer for that female athlete and it's her bras and her bottoms. And so, we want to double down there, we want to make sure that we own that position. And then, we're going to continue to find things like in the footwear space like we did with HOVR, so just as well as we did in the men's side of the business and also some new franchises we've been building and things like our product called [indiscernible] (00:34:47). So we're seeing some success. And we're not where we need to be yet, but we see great opportunity in women's, a massive, massive opportunity and [ph] initiative for (00:34:53) this brand.

Robert Drbul
Analyst, Guggenheim Securities LLC

Good luck.

Operator: 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, Dave, I wanted to follow up on some of your comments around the guidance. And maybe looking big picture on the year, I know you over delivered the profit targets for Q2, maintained the full year outlook. And I wanted to ask about your overall confidence in the outlook, if that's changed at all, especially given some of the remarks about Q3 and kind of the implied margin improvement that you'll need in the fourth quarter. If you could talk about the confidence there, and maybe, a little more color on the drivers of that improvement later in the year?

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

Sure, Jonathan. When you look at the full year, I think the message that we're trying to get across is that we're basically executing on a plan we laid out 6 months ago with a few minor changes. One is, we want to more aggressively get after the inventory overhang. We've been using the off-price channel more so to do that and that's one of the pieces of the lift in Q2 and full year. We also have had a little bit better-than-expected service levels. As we continue to, or our supply chain continues to optimize how we work within our new ERP system, we were a little cautious in those forecast, and so we're doing a little bit better against that.

So it's those two pieces that really overdrove Q2 a little bit and is also part of the race, or the larger part of the race for the full year. So high level, we're still driving through the same plan we laid out six months ago which we're excited about. Because we've been a little more aggressive with working down the inventory through the
off-price channel, you see that pressure on our gross margin rate which we’ve guided a little bit lower than what we guided to over the last two calls. But then, at the end of the day, between the revenue lift offset by a little bit lower gross margin, your bottom line is pretty much the same. So we’re still executing on the same plan as we go through the year.

When we think about some of the quarterly flow and looking at Q3 and Q4, for the gross margin, for example, we’re guiding to a down 50 basis points in Q3 which implies a pretty big raise in gross margin in Q4. And when you really look at that, Q4 – from day 1, we planned that Q4 was going to be our largest gross margin rate improvement, the largest factor being significant supply chain initiatives that we initiated last year. They really take hold within our later Fall Winter 2018 product assortments and also our Spring Summer 2019 product assortments. So those possibly impact Q4 selling margins for us.

Also, we’ve had three quarters in a row of higher off-price channel sales that are going to start to tail off in Q4, as we’re getting ahead of that inventory situation. So that, obviously, helps year-over-year margin in Q4 as well.

And then lastly, we’re planning Q4 North America to be a little less promotional than what we did last year and really trying to stay [ph] brand right in premium (00:37:53). So, all those things are really helping Q4 gross margin, when you think about that Q3, Q4 flow that I mentioned.

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

I would just add, Dave, we’re also – we’re actually planning promotions down also in Q3, so the whole second half actually.

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

Okay. That’s helpful. And if I could, just a broader question for Patrik or Kevin, I’m curious if you have any more insights on the degree to which the product pipeline is filling, maybe more beyond 2018 given the lead times there. But any more color at a high level, kind of state of the multi-year pipeline and maybe what to expect as we look out in the future years?

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

Yeah. We’re really excited about when we think about the future. And part of that is because we’ve also been – as we’ve been building our commercial go-to-market and making that more robust, we’ve also made sure that we’ve actually moved part of that up into our innovation funnel. So we’ve been working simultaneously on both the go-to-market for our commercial engine and for our innovation engine, making sure that those two engines are tied at the hip.

So in other words, driving innovation calibrated to the work we’re doing with consumer insights and our commercial engine, making sure that we’re stacking up innovations and platforms, future franchise-building, if you like, for years to come. And when we look at it today and we think, out in 2019, 2020, 2021, into the next three years, we will have a steady drift or launch, if you like, of great innovations and platforms that we’re now going to be able to actually commercialize as they drop into the commercial calendar.

So we’re getting much more diligent about that process and how we do that. We invested heavily into our footwear innovation engine, for example. We opened up our Portland office in August of last year. That’s now
getting up to speed, it's almost a year in. We have great people, great staff, great innovation, going on out there. We have our lighthouse facility here in Baltimore where we're doing a lot of our apparel innovation, that's now also fully up to speed under Clay Dean's leadership. He's been here now for over a year.

So the combination of great people, great structure, great process, marrying the innovation pipeline with the commercial pipeline, putting those two things together and really planning our business and tying it to our supply chain, makes us very confident that product that's going to come out of Under Armour in years to come. It's going to make you better. And it's going to be product that you never knew you needed, but much once you have it, you can't live without it.

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

Okay, appreciate the insights. Thank you.

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

Thank you.

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

Thanks, Jon.

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

Thanks, Jon.

Operator: Your next question comes from Jim Duffy with Stifel. Your line is now open.

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

Good morning.

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

Good morning.

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

I'm hoping for some perspective on the composition of the inventory. As we see the month into the second half of the year, how much 2017 inventory remains to work through? And how are your levels of spring/summer 2018 excess as you exit this season?

David E. Bergman
Chief Financial Officer, Under Armour, Inc.
Yeah, Jim. This is Dave. We normally don't really break down the break between the seasonal inventory. But what I would tell you is, is that the off-price channel that we've been driving through to help with the inventory overhang has mainly been relative to 2017 products. So we're really getting pretty clean on that as we move through the year. And some of the more current 2018 product, we're continuing to move that through our normal channel.

So overall, health of the inventory is fairly good. It's still more than what we want and we're going to continue to actively manage that down and continue to work through the operational discipline to not create as much excess inventory going forward, but there's not a lot of older inventory remaining. It's pretty healthy what is left on the balance sheet and then we're going to move through it.

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

Okay, very good. And can you guys speak in more detail about some of the additional restructuring opportunities identified? What's the nature of some of the lease and contract terminations? Why did you feel it made sense to exit those agreements and what was the kind of the financial analysis associated with that?

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

Sure, Jim. A couple of things there, as we continued to kind of dig through the year to really make sure we're rightsizing the cost structure and kind of optimizing our SG&A to be able to invest more in the areas of higher return and pull back or cut back on areas with lower return, there are a few stores in North America that we're going to be addressing that we weren't originally looking at. But the bigger we dig in, the more we're kind of uncovering some things that we think can really help the long-term and those have some longer tails to them.

Also relative to distribution facilities, those plans take a few years in the making. And so some of those plans were laid out when we're at a higher revenue trajectory versus where we are right now.

In addition, the supply chain initiatives are driving a significant reduction in our SKUs going forward. So the combination of those two things as far as right-sized revenue in our plan and right-size our SKU rationalization are two of the big driving forces that are allowing us to optimize our distribution facility space, and therefore exit a few spaces that are less efficient for us and make sure that we're focusing only on the bigger, more efficient boxes that we really need for the future.

We also continue to dig deep on marketing and making sure with our [ph] roaming work (00:43:26), our return to marketing investment that our dollars are in the right spot to align with our long-term strategies. And so we're addressing a few of those areas as well.

And then also, we've got a business model change that we're in the process of working through in Brazil. Brazil has been a little challenging for us with the economy, as it has been for others. But also, as far as having local-for-local supply chain capabilities within the country, it's something that we're not completely upon yet as well and so, finding a great partner to help us build the brand there and flipping that to a license model, to do so to be able to reduce the volatility, increase profit margin, is something we're working through right now as well. There's charges related to that change.

So, a lot of great moves relative to the long-term, but we're not really going to disclose specific locations or leases or assets out of respect for the negotiation of those parties.
James Vincent Duffy  
*Analyst, Stifel, Nicolaus & Co., Inc.*

Very good. Thanks for that perspective.

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

No problem.

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

Thanks, Jim.

**Operator:** Your next question comes from the line of Omar Saad with Evercore ISI. Your line is open.

Omar Saad  
*Analyst, Evercore ISI*

Hey, thanks for all the information. Good morning.

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

Hey, Omar.

Omar Saad  
*Analyst, Evercore ISI*

I wanted to ask you a little bit about Amazon. We noticed you guys are pretty active, the brand was pretty active during prime day in that period. I'm not sure if you're using it as a clearance channel or you have to build the brand there, build that relationship, any color there? And I also wanted to ask about your partnership with the Rock, it's kind of a unique interesting asset for an athletic brand, as you bring in new access to new customer groups or segmentations, how you see your relationship with them evolving and over time and how you think it kind of contributes to the brand, the messaging globally? Thanks.

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

Hi, Omar. This is Patrik. Thanks for your questions. To begin with Amazon – Amazon is a great partner to us. We're not using Amazon at all as any sort of a clearing house. We're dealing with Amazon like we deal with our other wholesale customers, and we have a global relationship with them in the sense that we're also doing business with them in Europe and in India. So, our business with Amazon is very healthy. We have a strong relationship and the business continues to grow, and we will continue to work closely with Amazon into the future. We believe it's a channel distribution that's important for the brand and we have very strong relationship.

As it relates to Rock, we're very, very happy with the relationship with that athlete, actor, person and his team, and we've had great success with launching collections both in apparel and in footwear and now also in headphones. We released headphones together with JBL about a month ago or three weeks ago, I believe it was. Those are blowing out as well. And it's a little bit of a different asset for us in terms of how to think about his enormous social media reach across the world.
So we believe that he fits the perfect build, if you like, in terms of training, the training category for us and he has global appeal. So we believe that we have a lot of legs in terms of our relationship there going forward into more and more categories. And I'm sure that Kevin wants to add a little bit of color on the product side here and the relationship that's been a long one.

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

Yeah. Thanks Omar, for the question is that – you're right, it's very unique and someone like the Rock, he's bigger than life in so many ways. He was just named the highest-paid actor of all time. So he's unique and he's got a very sort of special thing that he brings to Under Armour.

One thing to remember with any of the partnerships that we have, what's critical is that we're always driving brand. Everything we do has to be accretive to the brand. It is that as big as some of these partnerships are, building a Curry business that's in the nine-figure range, these are still things that they're not the underlying strength that we need for the overall brand. They certainly [ph] action (00:47:40) it and so what we want to do, is we want to take bold visions with each of our unique assets like Stephen and like Rock, and these guys don't think small. They're looking how do we build $300 billion, $500 billion businesses. And so, we want to make sure that we're right-sizing them and understanding what that means in the go-to-market, in the calendar of the new 16-month calendar as well that we can stay close and current-to-market with the demands of the consumer.

So like Stephen Curry, it's the success that we saw with the Curry 4, what we're seeing with the Curry 5 and then the excitement we have and the Curry 6 dropping at the end of this year, we want to use the ability to capture the market, but you also see us also capturing scarcity. And I think it's important that we balance those two things, as we're not looking for a novelty business that's here today and gone tomorrow, but how do we build businesses that could be sustainable and long term.

So like the Rock's headphones and there's nothing like getting a phone call for doing the right job and saying, my headphones sold out in three hours, my shoes sold out in 30 minutes. And we recognize that and capture it, but we also see a great opportunity there. So, we want to be smart and prudent. We also want to make sure that everything we're doing is brand-accretive, and the great thing about, I think, the partners that we brought on board is the ones that are looking and interested in overall promotion and growth of the overall health and strength of the Under Armour brand. So that connection together is something that makes something really unique and will continue to capitalize on wherever we can.

Omar Saad
Analyst, Evercore ISI

Thanks guys.

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

Thanks very much Omar.

Operator: Your next question comes from Michael Binetti with Credit Suisse. Your line is now open.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC
Hey, guys. Thanks for taking my questions here. Can I just ask you a quick one on the model? You were talking about the $75 million of charges for the lease termination. I know you don't want to get into a lot of details, Patrik, but could you help us think how many of the revenue-generating assets have already happened or already maybe impacting the direct-to-consumer number in the second quarter? And how much of that is still to come? And for full transparency, I'm asking because I know third quarter is usually when you give us an initial look at 2019 revenues. And I want to make sure we're thinking alongside you as we try to run-rate our trends, if there are some incremental headwinds to come.

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

Why don't you give some more detail?

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

Yeah, and Michael. This is Dave. A couple of things. I guess. We're addressing some doors in North America, but keep in mind, the starting base of doors there was around 20. So, there's not a lot of doors in question. So, even though that we are closing down some that are less profitable, it does not have a dramatic impact on our revenue for the year. Obviously, it has a little bit more impact back half versus front half, but it's really not traumatic and it's already built into our guidance. And so, no real big surprise there.

And then, relative to the other restructuring activities, there aren't really any that are tied to revenue other than maybe the change from Brazil from a full sub to a license. And so obviously, that's a lower revenue stream, but it's a more profitable revenue stream. So there is a change there and that'll have little bit of a back-half versus front-half impact as well.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Okay. And then I wanted to really talk to you about the gross margin. The guidance were down 15 in the third quarter, I think since last time. I think, since last year, when we started to talk about 2018, it was framed at a pretty hardline between first half and the second half related to off-price and inventory clearing, can see a lot of the progress you made in the second quarter. Sounds like there's a little more of the component in the third quarter than you embedded in the guidance initially. So conversely, is there anything you guys need to think about to navigate higher level of inventory that might be off your books, but out in the off-price channel in third quarter?

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

I mean, I think, it's probably a fair statement that we're doing a little bit more of the off-price in third quarter than we originally anticipated as we want to be more aggressive in cleaning up the balance sheet before we end the year. So that's definitely fair.

Also, relative to Q3, it's a little bit of a lower growth rate for us internationally versus the other growth rates – other quarters within the year for different reasons relative to shipment, timing, distributor sales and things like that and store opening dates. And so, our largest driver within international is the Asia-Pacific region, which is also our highest gross profit region.
So if international is going to be a little bit of a slower rate in Q3 versus the rest of the quarters, that also has a little bit of the impact on gross margin as well. So there are a couple of different things coming into play as we wrap up the more aggressive inventory management actions, as we get towards the end of Q3 and then move into a different place in Q4.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

All right. So, I guess, I can sneak one more in, I hate to have asked you so many near-term questions. As you think a little bit longer-term about the gross margin strategy, I think, it's more interesting to think – I assume some of this will come at the Analyst Day, but I think it will be great to understand your goal of moving the company towards higher levels of profitability. And I think, we'll be coming off this call here thinking sales are generally moving in the right direction for you, you're managing costs. And if you're driving sales, you'll get some of your earnings back, but a really big component of driving earnings out longer term is the gross margin. Can you just help us think bigger picture about where we're headed on the big components of the gross margins as you look out over the next few years?

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

Yeah, Michael. Obviously, we're focusing on 2018 for this call. We absolutely appreciate the interest in 2019 and beyond and quite frankly, we are focusing on that incredibly throughout this year. And a lot of the things we're doing, whether it'd be on the supply chain initiatives to help gross margin, whether it'd be getting cleaner on our inventory before we get into 2019, whether it'd be adjusting and really dealing with our cost structure, better product and better product, et cetera, well, all these things are going to add up to where we want to drive for 2019 and beyond. But until we get to the Decembers Investor Day, we're going to hold back on any details there.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Fair enough. Thanks guys.

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

Thanks, Michael.

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

Thanks, Michael.

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

Thanks.

Operator: Your next question comes from Jay Sole with UBS. Your line is now open.

Jay Sole
Analyst, UBS Securities LLC
Great. Thanks so much. My question is on the order book for the U.S. wholesale business booking into 4Q, as some of the off-price selling kind of rolls off a little bit and maybe you build up sort of more of that regular price business. Can you just talk about what percentage of your orders you expect for 4Q are in hand today and specifically within that, core sporting goods channel?

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

This is Patrik here. We don't normally comment on that, but I can say that just building on what Dave talked about earlier, we're rolling off heavier inventory levels into 2019, and that's – what we're focused on right now is making sure that we're doing what's right for the business which is making sure that we're getting out of inventory and then making sure we're not buying as much going forward, and making sure that we really are being prudent with how we think about that.

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

And then, Jay, relative to Q4, based on a timing and lead time perspective, we're looking at a quarter that's primarily based on booked orders. So there is a fair amount of confidence obviously when you have booked orders in hand. DTC is a different animal, but we feel good about the KPIs that we're driving there.

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

Yeah, and we think through everything, whether it's our SKUs in terms of how we spend our money, I mean there's a constraint element and a focused element to everything we do at this point in time going forward. And as it relates to inventory, we want to make sure that we're making the right decisions for the long-term. And that in combination with better segmentation and stronger marketing and a better supply chain, we believe is going to set us up for success going forward.

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

Jay, probably one other thing I'll point out real quick that might help you a little bit relative to the model in the Q3 and Q4 revenue flow. We are seeing some customer demand shifts to more closely align with seasonal changes and with that, we have some movement of shipments and orders that were in the Q3 timeframe last year that are now shifted a little bit into early Q4. So our year-over-year revenue flow, Q3 to Q4, is a little bit different. So that's part of what's driving a little bit of a lower rate in Q3 and then a little bit of a higher rate in Q4 on our implied guidance on revenue.

Jay Sole  
Analyst, UBS Securities LLC

Got it. That's helpful. And maybe if I can ask one more on just marketing as a percentage of sales. As you look forward for the rest of the year, what do you expect the right amount to be and what type? And how much you do feel like you need to spend to remind consumers that you are an on-field, authentic on-field brand? And that sort of related to sports marketing, whether it's teams or leagues or players, how are you feeling about the right now in terms of your overall focus on cost control?

Patrik Frisk  
President & Chief Operating Officer, Under Armour, Inc.
Yeah. I'll just add a little bit color on that. We were, as you know, fairly quiet last year in the back half, being smarter about how we spend our money. We've invested it a lot, as we've talked about in terms of consumer insights. But one thing we haven't talked much about yet and we'll talk a lot about at the Investor Day is we've also invested into a lot of [ph] roaming work, return on marketing investment as it relates to understanding how our marketing dollars have worked for us in the past and how we should think about spending our money smarter as we go into the back half of this year and beyond. We're also doing a lot of work around digital acceleration. What we mean by that is we're working through and understanding where we learn very fast on our digital investments, which is also helping us direct the marketing spend to the right way. And we've learned a lot from what we did this year earlier in our digital campaigns around HOVR and the training campaign that we launched in May, that was 100% digital.

So, we believe that as we look at the back half of this year, we're doing more marketing in terms of making our dollars work better for us in the back half of this year, which gives us a lot of confidence too that we're going to be more successful in the back half of the year. I don't know if you want to add.

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

And Jay – yeah, let me add to that Patrik. I think, if you asked us a year ago, we're not pleased with how loud we've been as a brand. And that something is getting into 2017 when we watched our model sort of shift and change, we had to make significant reductions to our SG&A in the current year of 2017. Rolling that into 2018 and right-sizing our business and a lot of the things that we've done this year to put our business in the best position, to be strong and healthy moving forward, it's coming across I think to the amount of amplification or velocity of our storytelling.

That's something that's still at the heart and the soul of this brand. I use the word brand very carefully. It's because brand is everything and that it starts with a great product and it starts with the amplification of the story that we put out about that product. And so, we feel very good especially about the processes we're putting in place, the go-to-market, the ability to deliver on time, where we're not disappointing our consumers first and foremost, but also our customers in making sure that we're there and showing up with all the engines firing.

And so, I believe a lot of the work that we've done, you're starting to see some of that. It will roll into 2019. No one is at any way declaring victory, but we know the messaging that we're capable of and that the consumer is expecting for us. And I think, you're going to start hearing a much louder and a much more deliberate and a strategic thoughtfulness that goes into every dollar that we spend on the marketing side. And so, my job is pressing Dave and working with the – Patrik uses the word constraint, but working within that. But there's enough money for us and there's enough story and perspective of this brand that will cut through for the consumer to really deliver something that will be unique to the market and very special that makes it Under Armour.

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

Dave, do you want to add anything? Okay.

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

No. I think we're good.
Jay Sole  
Analyst, UBS Securities LLC  

Thank you so much.

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

Thanks, Jay.

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

Thank you.

Operator: Our next question comes from the line of John Kernan with Cowen. Your line is now open.

John Kernan  
Analyst, Cowen & Co. LLC  

Hi, guys. Thanks for squeezing me in.

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

Hey, John.

John Kernan  
Analyst, Cowen & Co. LLC  

Just, can you give us an update on the SKU reduction plan and where do you expect to be by the end of this year, and heading into early 2019? I think you said 25% reduction by the 2018-2019 time period and a lot more than that going beyond that. So, just any update on where you'll actually be from a SKU reduction standpoint by the end of this year as we head into early 2019?

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

The two year stack from 2017 to 2019, in the back half of the 2019, we'll be closer to 50%. So in the same way that we're working diligently with our inventory, we're also making real strides and working diligently to make sure that every SKU works harder for us. That also implies that we've done other things in terms of our materials dramatically driving down the amount of different types of materials that we use and also driving down trends that we use to make things like [ph] zippers, pullers (01:00:39) and all those different things as well, beyond the 50% actually.

And when you then go beyond the SKUs, the materials and all of the trims and you go all the way to the backend, the other thing that we're also working hard on and Colin Browne is working on in terms of the vendor base, we're also consolidating the vendor base, right? So larger, better relationships with stronger partners, to be able to make sure that we're ensuring a stronger supply chain to deliver those products. All of that is happening and all of that is starting to take hold in a big way for spring 2019 and accelerating through 2019 into 2020.
John Kernan  
Analyst, Cowen & Co. LLC

Yeah, that's helpful. And just one more philosophical question I guess, towards DTC. Has there been any change in how you're thinking about that channel? Obviously, you spent some near-term lease expirations and there's been some cancellations and terminations, just wanted to have your view on the direct channel, both in the physical and digital space.

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

Yeah, I think – thanks for that question, it's a really important one, as it comes back to how we think through the consumer experience for the global brand of Under Armour. We'll build over 200 stores in the world today, this year and we will continue to do that kind of amount going forward and maybe even accelerating it, because we do believe that in every part of the world, there is a retail component that's needed to actually meet the consumer as the consumer expects that 360-degree are always on experience with the brand. And we're looking at – actually and we'll be talking a lot this at our Investor Day in terms of how we think about our different channels come together in the future for the brand to give that holistic expression and experience for the consumer.

So we're excited about what's going on in our direct-to-consumer business, whether it's our e-com business around the world or store rollout, and we'll continue to invest into that pure retail format going forward, and we're doing a lot of updates on it right now. And of course, here in this area, as well as in our other areas, we're also investing into consumer insights. So we're getting smarter about what's actually going on in our stores in terms of how the consumer is shopping and what the consumer expectation is.

So again, there's an ability, an opportunity we believe, for us to also understand that better and combining the information and insights in the store environment together with our online environment, together with all of the work we're doing around our apps, as well as our wholesale business, really enables us and gives us an opportunity as a brand to differentiate and building much, much stronger relationship, we believe, with the end consumer than most other brands.

John Kernan  
Analyst, Cowen & Co. LLC

Fantastic. Thank you. Looking forward to coming down to Baltimore in December.

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

Thanks, John.

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

Thank you.

Operator: And that concludes today's question-and-answer session. I'd like to the turn call back to Mr. Plank for some closing remarks.
Kevin A. Plank  
Chairman & Chief Executive Officer, Under Armour, Inc.

Thank you, operator. One thing I want to be clear is that I've done a lot of these, this is actually my 51st call, and I want to be clear that on this call is that no way I think are we declaring victory. We are in the [ph] meatiest part of this transformation that we're going through, and I think that's coming through right now. But we're incredibly optimistic of what's being built or incredibly optimistic about the strength of this brand.

And if there's a message to come is, number one, is that we're delivering what we said we would do, but we're also we're playing a long game and that this is a multi-year transformation, where, as Patrik has alluded to, we will always put the consumer first. And by doing that, we're going to simplify our operations.

The hardest thing in business is keeping your business simple and it's one thing that we're working incredibly diligently with our teams across the board, and it is a full-on effort. And it is our internal team. It is our Board of Directors. It is our external team. It's our partners, our customers that have been so important for us. But we're increasing our speed to deliver. We're prioritizing our investments based on return, but that always put the brand first, the brand, the brand, the brand.

And I think if there's a message to come through today, is that we are stabilizing this business and that we're doing it by right-sizing our inventory and our SG&A. We're also improving things within the operating model like our systems, our structure, the new go-to-market process, and within that creating repeatable processes for us, our product pipeline, our storytelling, again the way that we deliver. But in all these things, the brand remains paramount. Every product does something and that is what makes it especially unique to Under Armour.

Some of these short-term actions that we're taking to correct some of the inefficiencies we've had, we believe will be the long-term structural moves that will actually ensure the fact that this brand has the opportunity to become the world's next great athletic brand. We're incredibly excited about it. I'm passionate about the team that we have here. I'm appreciative for Patrik joining us and celebrating his one-year anniversary, but we have the pieces in place. It's a matter of us executing it at this time, but we've got a great opportunity and you can count on this team working everything and giving everything they have to make that happen.

Thank you all for your time today. We appreciate. Look forward to updating you again in another 90 days.

Operator: Ladies and gentlemen, thank you for your participation in today's conference. This concludes the program and you may now disconnect. Everyone have a great day.