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Under Armour, Inc. (UA)

Q3 2017 Earnings Call
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MANAGEMENT DISCUSSION SECTION

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

As a reminder, this conference call is being recorded.

I would now like to turn the conference over to Lance Allega, Investor Relations. Sir, you may begin.

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

Thank you, and good morning to everyone. Thank you for joining us on today's call to discuss Under Armour's third quarter 2017 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 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 of why this information is useful to investors.

Joining us on today's call will be Under Armour Chairman and CEO, Kevin Plank; President and COO, Patrik Frisk; and Chief Financial Officer, Dave Bergman. Following our prepared remarks, we'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.

Thank you, Lance, and good morning, everyone. Before we start, I'd like to take a moment to acknowledge the disappointment that we feel about our financial performance in 2017. We understand the issues that put us in this position, and we'll speak to you today about how we're addressing these challenges, and how we're proactively working to move our company forward.

On our last call, we detailed a number of strategic initiatives and a restructuring plan geared at aligning our resources to make us a better company. Central to this ongoing transformation is balance, strategic, financial and operational.

In 2017, our equilibrium has been out of sync with our long-term expectations, we've not performed at the level we originally aspired to. Some of this imbalance has been due to things in our control like product, consumer connectivity, and structural changes, and some things from out of our control like the macro environment and shifting consumer behavior.

Amid this backdrop, 2017 has been a reset for Under Armour, and while certainly a challenging year, it is a time that has taught us invaluable lessons, strengthened our resolve, and will prove to be a year that helps redefine us as a brand, company, and culture.

Before going into our third quarter results and our outlook for the balance of the year, I think it's useful to put our story into context with chapters, where we've been, where we are today, and the actions we're taking to position this brand for the future.

Chapter one was a basement start-up, there was a scrappy hard-fought fight that established our DNA and laid our foundation. Chapter two was about expanding into women's and international, while driving the product innovation engine. Drilling consumers and taking to the limit of what was possible as a private company. Then we went public in 2005 and entered chapter three; a period anchored in the idea of getting big fast and rapidly expanding our business to gain scale. Scale and innovation, product, sport categories and global footprint; ultimately, scale to be able to compete.

We hit $1 billion in 2010, which kicked off a 6.5 year run of greater than 20%-plus quarterly growth getting us to nearly $5 billion by the end of 2016, a run that certainly met our strategic objective. Along the way, we've built the world's third largest athletic brand, a performance brand created with an underdog fighting DNA. Well the scrappy never went away, the fight has never been stronger, and while we sit here today writing the early pages of chapter four, evolving to become a truly operationally excellent business, we are proud of the speed to size we were able to achieve. Yet for as much as this rapid growth, realized amazing milestones, stories and accomplishments, we are now dealing with issues related to that growth.
In the past few years, while we've delivered industry-leading innovation, built an amazing roster of athletes and assets, accelerated our footwear business, expanded DTC in our wholesale distribution, while gaining traction in our international business, our operations have become increasingly more complex.

So, with three chapters behind us, here's how we’re thinking about 2018 and beyond. Right now, we’re sitting squarely at the intersection of two concurrent events. The first is an uneven macro environment highlighted by geographic variance, retail disruption, competitive undercurrents, and changing consumer preferences.

For Under Armour this has played out in a binary manner geographically. Our international business, by every cut, continues to exceed our expectations strategically and financially. However, our North American business, predominantly on the wholesale side, has gotten aggressively tougher since the fourth quarter of last year, amid a greater retail landscape that remains pinned a multi-year struggle to evolve past its legacy architecture.

A confluence of events that have occurred in the North American athletic sector, including bankruptcies and store closures, declining productivity, traffic and shifting fashion preferences has contributed to what has now been more than a year-long promotional environment.

Strategically, while we've tried to manage the brand as best as possible in this environment, the pace of sector-wide inventory work through has sustained at a much slower pace than we anticipated. This continues to contribute to lower demand, and consequently, contracting wholesale revenue for our business.

As we look to close out 2017, we do not expect these conditions to improve. And although too early for us to provide an outlook for fiscal 2018, our initial assumptions anticipate continued strength across our international and DTC businesses, contrasted with a difficult environment in our North American wholesale business well into next year.

 Appropriately, we are assessing our distribution model within this key market and working to identify opportunities to optimize our strategic wholesale partnerships, along with our own DTC business during this transformation.

Independent of macro challenges in North America, the second side of the intersection are the growing pains that came, as a result of such rapid expansion. As detailed on previous calls, we're well underway with a strategic transformation designed to simplify our go-to-market, correct our inefficiencies, and take advantage of the scale and infrastructure we've built to better serve our consumers.

In the midst of standing up our category management structure this year that includes distinct leaders, strategies and teams, we are ensuring that our product and story connects with the consumer, fulfilling the promise of what they expect from a brand like Under Armour.

By building a stronger ecosystem with the consumer at the center of a disciplined go-to-market strategy, we are in the process of improving our ability to drive better consistency, consistency with respect to product, demand creation, and the ultimate goal of creating a more predictable pull model capable of delivering financial flexibility to drive back into the business, while delivering value to shareholders.

Again, we are incredibly disappointed with our 2017 performance, yet given the uneven choppy environment in North America, as a $5 billion company with the scale, resources and conviction to get through it, we know who we are, how we got here, and are confident in our path forward.
Our eyes are wide open, and we’re well invested in the strategies that will leverage our strengths to emerge stronger, faster and leaner. But this will take some time. In 2017 and 2018, as we work to reset and strengthen our underlying business, we have three main goals: operate, fuel, and innovate.

As we define the issue in our business right now, we see two contributing factors: tough conditions in our largest market, and complexities as a result of rapid growth. To address this issue, we must operate a better company. From design, sourcing, process and planning, to speed-to-market, consumer connectivity, and innovation, we already have multiple strategies in play to right-size and amplify the business throughout our portfolio.

Walking hand-in-hand with this is the need to address our cost infrastructure, which is built for a much larger company than we currently are. In light of this, we have a restructuring plan in place and continue to dig deep into all areas of our business with an eye toward creating underlying operational leverage. The difficult aspect is that a large part of our cost structure is committed from our asset build over the last few years. So, lower top line expectations will moderate short-term leverage.

That said, we are working to engineer multiple levers across our P&L by optimizing our supply chain, employing pricing, volume and strategies, prioritizing and de-emphasizing investments based on ROI, and utilizing more efficient global operating models to create better flexibility for the long-term.

Flexibility is critical to driving and funding the virtuous cycle of invest to grow and grow to invest, and ultimately what will fuel this brand. Central to fueling the brand is innovation, making the best product possible, and storytelling through demand creation, amplifying our message of making you better. It’s the reason that we exist. Every product deserving of a UA logo should perform for the athlete; for our consumers. It should make them better. Whether it makes them faster and stronger through efficient cushioning, temperature management or architecture, or the style, design and finish that powers the creative expression of one’s unique personality, Under Armour must make you better. With products like Threadborne Fleece, Seamless and ColdGear Reactor, along with footwear like Curry 4, the Patriot, and a brand-new cushioning platform known as HOVR, which Patrik will detail in just a bit, we’re fulfilling that promise and look forward to amplifying it even greater in 2018 and beyond.

Of course, innovation is about much more than product, it’s native to our DNA. And what we believe to be the reason we’ll become a better company. We will run a better business by innovating our way through this; innovative product, storytelling, speed-to-market, supply chain, merchandising, customer relationships, all becoming sharper. This means putting the consumer at the center of everything we do, and what Patrik is driving with our new go-to-market strategy.

And with that, I’ll turn it over to Patrik, a leader that in short order has brought an incredible amount of perspective, process and professionalism to this transformation. He, Dave and I are partnering together with full transparency and resolve to impact both short and long-term strategies to increase our ability to drive more profitable long-term growth. Patrik?

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

Thanks, Kevin. In the past four months, I’ve traveled to Europe, Central America, Canada and all around the United States, meeting with many of our top retail accounts, manufacturing partners, and the Under Armour team, and even working the floor in our own stores engaging with consumers.
Following strategic deep dives in the areas I have direct responsibility for; strategy, supply chain, product marketing and sales, we have absolute clarity around the challenging impacting the company, the related root causes and the steps necessary to address them. It's a new time, and a new time requires a new playbook, and that's one of the reasons I'm here.

And what I see here is an incredible team. A team that's used to winning. And I also see an incredible brand, a brand that is winning, but one that is not fully optimizing its strength or potential. Today, I will detail some initial observations and put context around our strengths and opportunities.

As Kevin mentioned, we have numerous work streams in place to address our current challenges and structural complexities. Our year-end call in mid-February, we'll provide even more detail on our plans and we're working toward a comprehensive Investor Day next year.

To build on the operate, fuel, innovate construct, let's start with innovation and the importance of making great product. But of course, our success must start and end with making great product that delights consumers; distinct, authentic and unbelievably high-quality product. It's our reason for existing. Lending high-performance innovation with function and style has been and will continue to be at the core of who we are. Under Armour is a performance brand.

Looking back over the last few years, we've been inconsistent with this promise. That inconsistency stops now. Going forward, you will see us accelerate our purpose as a performance brand by doubling down on innovation and creating even deeper connections with our consumers, underscoring how Under Armour makes you better. That's not to say there's a pause in our current pipeline, though. So now, I'd like to take a few moments to review some highlights for the rest of this year and into early 2018.

Starting with apparel. Our focus on investment around staying lighter longer has resulted in a more diversified, less key item-focused assortment. New silhouettes, styles and expanded offerings in key technology platforms like, Threadborne and Reactor, combined with our growing sportstyle product continues to show solid demand.

With our Threadborne platform from lightweight, highly breathable T-shirts in warmer conditions to our fleece, seamless and ColdGear Reactor collections for cold weather, our execution has never been sharper. This is an early, but good example of the coming consumer-led, listening to their needs and delivering a layering solution that doesn't sacrifice function for style.

While we remain focused on continuing to lead with our performance positioning, another category showing strong traction is our sportstyle product. And although not yet approaching meaningful scale, these products along with early reads in our Unstoppable collection gives us confidence that we're taking the right steps towards creating balance in our performance sportstyle offering to better align with ongoing trends.

Switching to footwear, our year-to-date performance has fallen short of our expectations, with results being negatively impacted due to lower demand in our North American business, especially the sports specialty channel and a continued overhang in basketball. Accordingly, we are working diligently to proactively fine-tune our footwear playbook, and ensure we deliver the right innovation, style and price-to-value equation at the right place and at the right time.

To touch on a few highlights, we launched a Curry 4 basketball shoe earlier this month; first in China and then around the world. Versus its predecessor, the Curry 4, used a much more direct design process, taking steps, vision and ideas and bringing them to life through elevated design and functionality. We've also revamped our
flow and scarcity model in a very different approach than past versions. Less than a month in, the response has been incredibly positive from consumers, retailers, influencers, and media.

Moving to our largest footwear category and biggest long-term growth opportunity, running, we remain focused on delivering innovation. Innovation in manufacturing and innovation in functionality and performance. Starting with manufacturing. We're excited to announce our limited release UA Charged Patriot footwear in November.

The Patriot is the first footwear to come to market from investments in our advanced manufacturing Lighthouse center right here in Baltimore. Available in men's and women's styles, it's an important step in driving design and innovation closer to market with every shoe assembled here in the United States.

And very exciting for us is the spring 2018 launch of our new cushioning platform called HOVR, that's H-O-V-R. The new HOVR cushioning system features the rare combination of superior energy return and impact absorption. We've wrapped the HOVR cushioning in Under Armour's energy web technology to control and direct energy right back to the runner's stride. The goal here was to give runners a zero-gravity feel, and that's exactly what HOVR accomplishes. This new platform becomes our third distinct cushioning technology, along with Micro G and Charged, and further demonstrates our commitment to running, as one of our largest growth opportunities.

And the technology in these shoes is not only limited to cushioning. Our first shoes using HOVR also featured a next-generation embedded connected sensor that tracks distance, cadence, pace and shoe life. This ties into our overall Connected Fitness strategy connecting runners to our global community through our run apps. The HOVR launch demonstrates the first true manifestation of digital meeting physical, providing runners with advantages that make them better, smarter and capable of more than they ever knew possible.

Our Connected Fitness strategy stretches beyond connected shoes with an ecosystem of nutrition, sleep, activity and fitness. With more than 220 million registered users and growing, we continue to lead in digital health and fitness from athlete performance to athlete recovery, driving brand awareness and ultimately selling more shirts and shoes.

Moving to operate, an area where I've been spending the majority of my time. This is where I believe I can have the largest impact to establish more consistency in our ability to delight the consumer, strengthen our brand and deliver sustainable profitable growth.

In order to drive stronger operational discipline, I'll break it out into three key areas; structure, process and go-to-market. From a structure and process perspective, strategically and mechanically, I see a company that has in many ways willed itself to get to where we are today.

Our approach has certainly been successful on many fronts, but inefficient in others. While we stand up our category management structure, we're making real-time course corrections to improve our speed, efficiency, and quite frankly, our profitability.

In this effort we're in the weeds working to create dramatically better synergy between how design, supply chain, and our segmentation approach is supported by our merchandising, demand creation, and distribution structure.

Within our quickly evolving matrix organization, it's just about that, organization. From standardizing everyday procedures like planning, business reviews and the use of data and analytics to establishing a team capable of making business and brand right decisions quickly, we're optimizing our ability to commercialize and make our business stronger and faster.
We're also executing on our restructuring plan to narrow our focus and shift our prioritization into areas with the highest opportunity for growth and profitable returns. And we have implemented systems upgrades, including July 1 launch of our integrated ERP business solution. This includes our point-of-sale, warehouse management, inventory control, merchandising and product allocation systems in both North America and Europe.

And while these enhancements are designed to enable us to more effectively and efficiently operate our business, and ultimately enhance productivity for the long-term, the implementation caused disruption in our supply chain operations during the quarter. This led to delayed shipments and loss of productivity, which negatively impacted our third quarter results. During this system migration, we have encountered a number of changed management issues impacting our workforce and manufacturing partners as they adapt to the new platform and processes.

That said, while this is a key factor impacting our fourth quarter and full year outlook, we're seeing improvements to our service levels and expect them to begin to normalize through the balance of the year.

And finally, we're managing our brand to the marketplace by adjusting our inventory strategy to work toward a position where we can better protect the brand and drive healthy growth in our direct-to-consumer and wholesale channels. In total, once the structure is set, and the process is in place, that becomes the core of our go-to-market and GTM strategy.

This end-to-end approach then becomes repeatable, ensuring a more consistent and predictable outcome. Crucial to a successful GTM strategy is consumer insights, an area that we see as a tremendous opportunity to both strengthen and elevate. In this respect, we've began to work on a consumer segmentation study targeting more than 20,000 people from around the world. Coupled with tens of millions of active users in our Connected Fitness community, the combination of this rich data set will help to more clearly define our global consumer target.

Defining our consumer will further enhance our ability to maximize our GTM strategy from product design, development, and manufacturing to marketing, segmentation, and merchandising. At the end of the day, addressing our structured process and go-to-market opportunities is an engineering undertaking that becomes an incredibly powerful tool, as we look to reduce the friction in our current 18 to 20-month product calendar down to about 12 months. When well done efficiently and repeatedly, it yields flexibility. Flexibility for choices and strategies to fuel this brand and our ability to engage, maintain and grow our consumer base.

And on the macro level, what’s happening right now is a change in the consumer, how the consumer chooses to engage with our brand, and how they choose to shop our brand. Achieving our growth potential means we need to continue to fuel the brand to maximize our connection with consumers. We have one of the most unique brand communities on the planet, a relationship we cherish and never take for granted. As consumer behavior shifts, we must ensure that we are delivering compelling, creative, and inspiring content, as quickly as they are moving.

The speed and relevancy at which we can promote our brand ethos through our storytelling is critical to our success and ensures a seat at the table in a consumers’ intent to buy. Category management, digital and obsessing the details of product will enable Under Armour to continue to deepen and strengthen our connection with the consumer, while we continue to delight and inspire them in new ways they have never experienced before.

Before handing it over to Dave, I would close by saying that in 2017 and 2018, we are slowing down to speed up. What does that mean? It means that independent of the macro factors compounding the outlook for our North
American wholesale business, we are simultaneously re-engineering our foundation, sharpening the organization, and learning what it means to operate as a big company.

Based on my 30 years in this industry, I'm resolute and optimistic about the opportunity for Under Armour. With the news we're delivering today, it might sound a little bit out of sync, but I assure you, we are clearheaded and well aware of the issues at hand, and the tremendous amount of work ahead of us.

Nearly a year into what we believe will be a two-year journey, the strength of this global team, our accelerating global scale, and sheer willingness to evolve and become a better company is undeniably confidence-inspiring. Dave?

David Bergman  
Chief Financial Officer, Under Armour, Inc.

Thanks, Patrik. Before we get into our results and updated outlook for 2017, I'd like to provide some more context around the restructuring plan and the one-time items that impacted our quarter. In the restructuring plan announced on August 1, the company detailed expectations that we'd incur a total estimated pre-tax restructuring and related charges of approximately $110 million to $130 million.

In the third quarter, we recognized $89 million of these charges, which includes $29 million of goodwill impairment related to our Connected Fitness business. The goodwill impairment, which was not included in the originally estimated range, was a result of the reduction of expected future cash flows for the Connected Fitness business, due to a decision to de-emphasize certain ancillary revenue streams, including connected hardware and related web and mobile app development. Including this goodwill impairment charge, we now expect to incur approximately $140 million to $150 million of total charges, with substantially all occurring in fiscal 2017.

However, we are continuing to dig in and we may uncover additional opportunities that could be realized in 2018. With respect to anticipated savings and what that means for run rates moving forward because we're executing in real-time against this plan, we're not currently prepared to share that information. We anticipate providing greater color on our year-end call in mid-February.

Moving to our third quarter, revenue was down 5% to $1.4 billion. As noted in our call today, the operational challenges we face from our ERP system implementation and related service levels along with lower North American demand negatively impacted our third quarter results.

Looking down further into revenue, let's start with product type. Apparel revenue decreased 8% to $940 million, as growth in golf and sportstyle product was more than offset by declines in our outdoor, women's training and youth categories.

Revenue for our footwear business was up 2% to $285 million, as strength in running and outdoor was tempered by declines in basketball and youth.

Accessories revenue was up 1% to $123 million in the quarter, driven by strength in golf and men's training tempered by a decline in outdoor.

Looking at revenue by channel, our wholesale business was down 13% to $880 million, reflecting operational challenges in the quarter, as well as lower demand in our North American business, particularly within the sport specialty channel. Direct-to-consumer revenue grew 15% to $468 million with growth in both our retail and e-commerce businesses around the world. DTC in total was 33% of global revenue in the quarter. Our licensing
business grew 16% to $34 million, primarily driven by new and expanded licensing relationships within North America.

By region, revenue in our largest market, North America, was down 12% to $1.1 billion, as continued promotional conditions, lower overall demand and operational challenges meaningfully impacted results. Outside North America, our international business continued to deliver strong results, posting a 35% increase in revenue to reach $305 million or 22% of total revenue in the third quarter. On a currency-neutral basis, international revenue was up 34%.

Clicking down into the international regions, EMEA revenue was up 22%, driven by balanced growth across our wholesale and DTC channels. We continue to expand our global presence through new market entries like Russia, while also driving increased presence in key markets like the UK and Germany. Revenue in Asia-Pacific increased 52%, driven by continued strength in China, Australia, and Korea, as we see the UA brand resonate well with consumers across key categories like running, training, and basketball.

Our Latin American business was up 33%, led by balanced growth in our DTC and wholesale channels across the key markets of Mexico, Brazil, and Chile. And finally, our Connected Fitness business was up 16%, driven primarily by new partner relationships.

Turning to gross margin. We saw 160 basis point decline to 45.9% in the third quarter. Excluding the restructuring, which contained about 30 basis points of inventory impacts, adjusted gross margin was down 130 basis points to 46.2%.

Clicking down into the components of the decline, the negative drivers included approximately 100 basis points from continued actions to manage our North American inventory, including pricing and higher composition of third-party off-price sales, 50 basis points from higher airfreight expenses, and 50 basis points of regional mix headwinds due to challenged results in our North American business in contrast to the continued strong growth of our international business. These pressures were partially offset by approximately 50 basis points of product costing improvements and 20 basis points of tailwind from changes in foreign currency.

SG&A expense was flat compared to the prior year and was better than planned, due primarily to expense management efforts, lower incentive compensation expense, and timing shifts in demand creation and other expenses to the fourth quarter.

Third quarter operating income was $62 million. Excluding the restructuring, adjusted operating income was $151 million. Interest and other expense was $11 million. Our tax rate was negative 5% in the quarter compared to 33% last year, primarily due to challenged results in the North American business, resulting in a higher mix of international pre-tax income, as well as impacts from the restructuring. Excluding the restructuring, our adjusted tax rate for the quarter was 29%.

Taking all of this to the bottom line, net income was $54 million or $0.12 in diluted earnings per share for the quarter. Excluding restructuring, adjusted net income and adjusted diluted EPS were $100 million and $0.22 respectively.

Turning to our balance sheet. Cash and cash equivalents were up 43% to $258 million. Inventory was up 22% to $1.2 billion, partially resulting from operational challenges from our ERP system implementation and related service levels, which delayed some shipments into the fourth quarter. Total debt was down 1% to $1.1 billion. And finally, capital expenditures were down 28% to $52 million.
As we look to close out the year, we now expect full-year 2017 revenue to be up at a low single-digit percentage rate, reflecting lower demand in our North American business, along with residual impacts from the operational challenges experienced in the third quarter. Clearly, this is a much different profile from the fourth quarter and full year than we discussed 90 days ago. On that call, we outlined several key factors we thought would come to fruition. And while still relevant, demand and operational challenges in North America significantly altered the terrain. To reconcile these factors, I will walk through them again.

From a distribution perspective, although North American distribution is exceeding our original expectations, it’s not enough to offset lower than planned wholesale demand, particularly in the sport specialty channel. Internationally, we continue to execute against our strategy seeing strong growth in all regions and channels.

With respect to product, while we believe our pricing, segmentation and assortment strategies have put us in a better position to compete in this highly promotional environment, demand and service-level challenges are expected to negatively impact the balance of the year.

And finally, in DTC, continued traffic pressure and the greater promotional environment, mostly in North America, caused us to temper our expectations in this channel.

Although we typically don’t provide further breakout to our revenue, given the magnitude of changes, we thought additional color would be helpful. Thus, for the full year, we now expect North America revenue to be down at a high single-digit rate, and our international business to be up greater than 50%.

Apparel and footwear revenue are both expected to grow at a low single-digit rate. DTC revenue should be up at a high single-digit rate in contrast to our wholesale business, which we’re expecting to be down at a low single-digit rate globally.

Moving to gross margin, due to increased pricing and other actions to manage our inventory, including higher airfreight, along with the higher expected mix of sales coming from our international business, which carries lower margin than the overall company, and the impact of our restructuring activities, we expect our gross margin to be down approximately 220 basis points in 2017. Excluding impacts of the restructuring plan, full year adjusted gross margin is expected to be down approximately 190 basis points.

Given our revised top line outlook, we now expect our reported full year operating income to be approximately zero to $10 million in 2017. Excluding the restructuring, adjusted operating income should reach $140 million to $150 million. Interest expense and other expense combined is now expected to approximate $35 million for the full year. Excluding certain tax related effects from the restructuring plan, we expect our full year adjusted effective tax rate to be approximately 23%.

Our updated adjusted effective tax rate projection is lower than previously planned due to our challenging North American results, coupled with continued strong profitability within our international businesses, thereby driving a favorable international mix to our pre-tax income. Taking this to the bottom line, excluding the impacts of the restructuring, we expect full year adjusted diluted earnings per share in a range of $0.18 to $0.20.

And finally, we expect full year CapEx to be approximately $300 million, down from the $350 million we cited in August, as we prioritize spend against the current environment.
To close, in the short term, we are disappointed we're not delivering to the level we said we would. As we finish 2017 and continue to work through challenges in our North American business in 2018, the same resolve that got us this far is becoming even sharper, more efficient, and more effective.

With a long-term goal of creating a more profitable and predictable trajectory, we're confident in our ability to create the fuel necessary to emerge a stronger and better company for our consumers, customers, and shareholders.

With that, I will turn it back to the operator for your questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from the line of Jonathan Komp of Baird. Your line is now open.

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

Yeah, hi, thank you. Kevin, I want to dig in a little more on the North America backdrop and especially wholesale, which has gotten progressively tougher. I know you highlighted three different areas, bankruptcies, decline in productivity, shifting fashion preferences as the sources of pressure externally. And I'm just curious, in the past it seems like the brand has been strong enough to stand on its own and perform well despite whatever is going on in the environment. Clearly the pressures are more intense now, but I'm just curious, if you could kind of give more detail on why you think it's more impactful now? And just, broadly, the overall health of the brand as you see it today.

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

Yeah. Let me begin with North America, and I'll get Patrik to actually weigh in on this, and so, we'll get full perspective. Let me just say again, in my own words, just, how disappointed that we are in the 2017 results. And you're right, I think the brand has always been able to stand on its own two legs. And hopefully, that still comes across today. We're just doing it as a much larger organization that's going through a shift. And, I think, as we've demonstrated throughout our 12-year history as a public company, what we're telling you today isn't exactly how we ever expect to deliver for the market, our shareholders and for our business.

So today, though, we are using 2017 as a bit of a – it's a reset – it's a reset for our business and our brand as we look to get and run and operate as a bigger company. We've been evolving our structure throughout 2017. We've talked about the things we've done is that hopefully what you feel is that we've been making the decisions and being proactive throughout really the balance of this year from – since the beginning of this year, from standing up our new category management, which gets us closer to the consumer, the restructuring that we went through this year, implementing our new system.

So, we've placed a lot of pain sort of onto ourselves, and none of it was meant to be self-inflicted; it was all meant to be thinking about the business that we're going to be. And so, from a brand health standpoint, number one is that we have great confidence, I think in the company that we are, in the consumer that has relationship with our brand and that we have relationship as well. But there's several things that are going on right now. So, maybe just speaking to the math, I can let Patrik talk about some of the contributing factors that led to that.
Patrik Frisk  
President & Chief Operating Officer, Under Armour, Inc.

Yeah. I think – thanks, Kevin. I think, Jonathan, we have a couple of different things going on. We look at it really from an internal and an external perspective. We certainly have seen some effects of the – what Dave talked about as well, the ERP implementation and how we dealt with that internally and how it actually affected our service levels.

We've also not been spending against the brand to the extent that we think we should have in 2017, as the environment has become more challenging. So, there's a couple of internal things that we believe has not helped drive the brand.

And then, from an external perspective, we mentioned the bankruptcies before, but there's also a lot of traffic pressure. The promotions in the environment currently are still rampant, and we believe they're going to continue throughout the remainder of this year. And that creating a lower demand in general is because we haven't done as good of a job as we believe we could have is also hurting the brand at this point in time. So, I would really for us look at this as kind of a perfect storm at the moment, both internal and external factors hitting us really hard in Q3 and is going to remain affecting us in Q4, unfortunately.

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

And if I can finish with that, too, is we want to be clear is that we've certainly got some places where we've got significant challenges, particularly in – our North American wholesale business that represents about 60% of what we do with specialty sporting goods. But we also have a lot of places, some – several places where we're doing really well. And we want to make sure that, that is highlighted; is that there's a consumer that is out there looking for our brand. But some of the things we've seen from the shifting consumer preferences; performance, which represents 90% of what we do as a business, you're obviously seeing that shift to lifestyle.

So, we're answering that move, and I think we're there. But when you look at sort of the big movers, when we talk about opportunity for this company, it comes down to footwear, international and our women's business. And obviously, our international business is kicking really well for us, but footwear and women's is a place where we feel like we can be and do a much better job.

The last thing that I'll say, Jonathan is that we – as difficult as it is to give you the news on this call, we have a really clear line of sight. I think we have a really deep understanding of who our consumer is, with – what we're doing with the leadership in place, the structure and the strategy that we're putting forward as well. We feel that we're fortunate to be going through an instance like this as a $5 billion brand, has the ability to absorb and more importantly drive forward. And so we're incredibly focused on the future, and we've got a team that's ready to run and march forward. So, hopefully, that gives you a little bit of color towards how – the way we're thinking about North America right now.

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

Yeah. It does. Thank you. And just a follow up on the last point, and really tie in the broader outlook, partly relates to 2018, but more broadly, I know on this year you're on pace to be a low single-digit operating margin business.

As you think about that normalizing to something higher over time, I'm just curious, are there enough levers in terms of the operating efficiencies you're starting to see more normalized pricing environment that you think you
can get to a more normalized margin? Or is there any sense that you need to maybe shrink the revenue base that it is today, and then grow from a more profitable base. I'm just curious to hear how you’re thinking about that dynamic?

David Bergman  
Chief Financial Officer, Under Armour, Inc.

Hey, Jonathan, this is Dave, and it's great, great question. Obviously as we look across North America and look at the wholesale side, we're going to continue to look at our distribution and prioritize how we work with our accounts.

But relative to going forward and operating margins and efficiencies, we're not at this point going to be sharing information on 2018. We look to do that in the February call. But obviously, as I mentioned in my script, we are digging deep in the cost structure, and we're going to continue to look at opportunities everywhere we can. So, we're going to keep driving forward to make sure that we can look for long-term sustainable profitable growth, that's my mission. And we'll give more color on that in the mid-February call.

Operator: Thank you. Our next question comes from the line of Randy Konik of Jefferies. Your line is now open.

Randal J. Konik  
Analyst, Jefferies LLC

Yes, thanks a lot. I want to have a two-part question. First, I want to just dig into apparel, and then after the response, can I just go into footwear. I guess, Kevin, on apparel, if you think about your golf business and then everything else ex-golf; your golf business has done very well on its own in terms of the product that's out there, it doesn't – there's – it's immune to promotions by others. It just really just performs very well.

So, when you think about how your golf business is performing, and then you kind of think about everything else, and you said the words, there's two things going on; there's a promotion that's going on in the environment, and then there's fashion shifts, more towards lifestyle. If you were to assess what's impacting more of the business ex-golf, do you think it's more promotional related? Or is it truly more shift in preference towards the lifestyle offerings. And in that regard, do you believe that – how you think about changing pricing architecture, or assortment architecture going into 2018 and 2019? That's my first question.

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

Yeah. Thank you. I think there's a lot of things that come into play. Number one, you're right, our golf business is doing really well. Maybe it starts to top with – externally, we've got a representative like Jordan Spieth out there that makes it easy for people to see Under Armour as an authentic off-brand. And the trendline there is it's incredibly basic, look it's about pants, polo shirts and quarter zips. So, I think what you can learn to expect from us is that we'll continue to be pushing the narrative of how we're going to be driving categories we're already doing, and having finding success like golf.

What we see though is that where our in-line product that we've seen across the brand, and we just think about what's the positioning of the consumer preference of the kid today. How do we speak to them? Because a generation of kids have grown up in love with this brand, seeing this is our authentic on-field, on-court, on-pitch brand. And as we've watched them grow up, they actually -they've continued to evolve. And so, what we need to do, and what you've seen us really take action, beginning going back to the fourth quarter of last year, as we
started seeing some of the softness, especially with the heightened promotional environment. Is that shift of preference away from performance that really went to lifestyle.

The kid's still wants performance. They still want us on field, they're just finding additional wearing occasions. And we believe that our authenticity and our credibility that we have, as a performance brand, it gives us license to make categories in other places; meaning every Under Armour product does something, that's something is really special and important for us, in that the consumer continues to come back to us for that reason. But I believe that you'll continue to see our lines move.

Patrik talked about the speed at which we can move our supply chain, and when you are in a 18 to 22 month supply chain, it's very difficult to be able to impact. We're 12 or 15 months into the decisions that we've made of moving with this market, and we've seen these things come. It just takes us a little bit more time, but I think you're starting to see it in the fourth quarter floor sets. I think you're starting to see it in some of the layering that we're putting out in the marketplace. And the way that we're addressing style across men's, women's, and youth. And so, we're certainly not standing still and taking these blows and saying, we accept this at any level. This is a proactive move forward brand, and that's exactly what's happening with our merchandising right now.

So, golf is a – it's a great highlight for us, but it's about us really winning in men's and women's training is where we're really focused on having product that's [ph] trendline (46:50), style right, fit right, color right, et cetera, and being there in the right place at the right time at the right price. And so, I feel that all those things reconciling, [ph] it's of a (47:00) really promotional environment is basically where we are right now, which is why we're giving you the sort of the look that we're getting into Q4 is just making sure that we're contemplating everything. But we feel good about the plan we have in place now, we're coming back strong through the balance of 2017 and through 2018 as well.

Randal J. Konik
Analyst, Jefferies LLC

And just to clarify, do you feel that from an apparel standpoint more changes are going to be made on the product architecture rather than the pricing architecture of that apparel?

And then, separately on footwear, you've gotten very high marks on the Curry 4 from an aesthetic look perspective, so what are the learnings from that Curry 4 product line that we could potentially anticipate being put forth in the traditional running categories, et cetera on the footwear side?

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

Yeah. When I look at 2017, I don't think that we were frankly differentiated enough for our consumer. And so, in no way, shape, or form do we anticipate changing the pricing model that makes Under Armour special and unique. We invented the $25 T-shirt. We've pressed the bounds as to what consumers will pay for apparel of thinking about it as a piece of equipment. And so that will continue is that – no one's looking for Under Armour to have the $25 hooded fleece.

They want Under Armour at the $75 and $100 price point. And so, we'll continue to push and to drive there from an innovation standpoint. But you've seen us get caught, and so we've been more promotional this year reacting to a broader market. And so to ensure that we've got a differentiated product, and again, where the price to value relationship of that product is something, which is – it's just got to carry. We can't just stick a logo on it and expect a consumer to buy it because they like the logo. So, you won't see that happen from us. It's always been in the DNA of our brand, and that will continue to be going forward.
As far as footwear goes, we've got a tremendous opportunity with a franchise like Curry. One thing I think it's important to put into perspective is just the sheer scale of our footwear business, which is over $1 billion. And so, when you have these marquee franchises like Curry, like what Patrik spoke to as well about our new HOVR midsole cushioning technology that's coming out in the spring as well, how that connects into our Connective Fitness of truly driving differentiation.

You look for these spikes of these really high, super aspirational products that will position the consumer to sell a lot of product that is more in the wheelhouse of where we can push. We've talked in the past about – I think we probably were a little braggish about things like the number of styles that we were selling over $100. And the fact is, when you look at some of our key distribution from our mainline sporting goods is they're selling footwear at $90. And so, I don't think we've done the best job of being in position with the price to value of where we sell and how we sell and identifying that consumer, which goes back to understanding our consumer, being consumer led at the center of everything we do.

At the same time you're right, we have some incredibly bright spots. The Curry 4 is something we've applied the lessons from Curry 1, 2 and 3, and we've put them into Curry 4. And so, you're seeing incredible demand, you're seeing sellout type of approach on the products, and frankly, we've applied that going forward into the Curry 4, the 5, and the 6 upcoming too. So, this is a long-term strategy, one that will position us really well in basketball, but more importantly, I think it helps position our overall footwear franchise that we have as being and identifying ourselves as a footwear brand. So, with only 20% of our business being footwear today, where it's more than 50% for our chief competitors, we see a massive runway of opportunity for us there.

Randal J. Konik
Analyst, Jefferies LLC

Very helpful. Thank you.

Operator: Thank you. Our next question comes from the line of Edward Yruma of KeyBanc. Your line is now open.

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

Hey, guys. Thanks for taking my question. I guess two parts, first, on U.S. wholesale, obviously some challenges and many of the specialty sports stores [ph] with some (51:06) strength in your new doors. I just step back, how do you think about overall door count? Are there places, where you think you could exit?

And then on the direct front, from a store count perspective, should we expect to see you slim that up?

And then finally on ERP, how long will it take to get mitigation kind of in place? Thanks.

David Bergman
Chief Financial Officer, Under Armour, Inc.

Yeah, this is Dave. I'll just jump in real quick. Relative to doors, as far as our own doors, we've really been adding more in China than anywhere else, and a lot of those are going to be partnered doors. So, we're probably going to be adding about 300 doors this year in total globally, and we should be ending the year closer to 900. And again, most of those are going to be the partnered doors that we have in China. But relative to the SAP implementation, what was your specific question around that?
Edward J. Yruma  
Analyst, KeyBanc Capital Markets, Inc.

Well, just how long until you can kind of get service levels back to an acceptable level?

David Bergman  
Chief Financial Officer, Under Armour, Inc.

Okay. So, the SAP implementation, I think as we look at that there's a couple different pieces to it that we've been working through. I think one of the aspects was the change management that's been a little bit tougher than we expected, including working even with our inventory partners, our vendors, trying to get them up and trained on the system as well, and just getting all of the things in place.

So right now, the system is operating well. It's stable, but the change management and the learnings and the reporting is what we're still working through here. So, we expect that in Q4, we won't have the same level of impacts that we had in Q3, but they won't be completely gone yet. We'll continue to work through it, and then continue to fine-tune as we move into 2018.

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

Yeah, and maybe I can add some color on the wholesale there as well in terms of number of doors in our distribution. We're happy with where we're at right now, and we will not be adding any additional distribution in the wholesale channels going forward the way we look at it at this point in time.

But again, as the environment continues to change out there, we're going to continue, of course, to evaluate where the ground is going to show up in the future. But there are no plans at this point in time to extend any distribution further.

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

Great. Thanks so much.

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

Thank you.

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

John Kernan  
Analyst, Cowen & Company LLC

Good morning, guys. Thanks for taking my question.

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

Thank you, John.
John Kernan  
Analyst, Cowen & Company LLC

Kevin, can you talk about how comfortable you are with the inventory up 22%, given where the U.S. wholesale trends are running, and where that inventory is located by category and geography? Thank you.

David Bergman  
Chief Financial Officer, Under Armour, Inc.

Yeah, John, this is Dave. I'll take that one. I mean, relative to our inventory, it is a little bit larger than we would like it to be at Q3. Some of that was the impact of the service levels and the implementation challenges that shifted some things out to Q4. That was probably 2 percentage points to 4 percentage points of growth there.

And when you look at the inventory between North America and our international markets, the international inventory growth rates are significantly higher as we're expecting a really large Q4 revenue for international. So, the inventory growth rates in North America are definitely smaller, and we'll continue to manage that down.

I also want to just remind you that 90 days back, we talked about how we would be carrying over some core styles internally to be able to move through our Factory House relative to keeping the wholesale floors and partners a little bit cleaner and bringing in returns a little bit more. So, we're seeing that as well, and that will carry through in the year-end as well.

So, you will continue to see a little bit elevated inventory levels, probably in those low 20% range, as we get to the end of the year as well, and then we'll be moving through more of that inventory in the front half of 2018 and working that down as we move forward.

John Kernan  
Analyst, Cowen & Company LLC

Okay. And then just one final follow-up. The direct-to-consumer guide for high-single digit for the year implies a pretty enormous deceleration in the fourth quarter. Is there anything going on there? Are you closing doors? And how does domestic DTC and international DTC play into that guidance? Thank you.

David Bergman  
Chief Financial Officer, Under Armour, Inc.

Yeah, John, I mean, when you look at Q4, it's not necessarily around closing doors, it's more around continuing to kind of watch the environment and wanting to make sure that we're planning prudently relative to the traffic patterns that we're seeing both on e-comm and within retail, and also our Factory House stores. So, we're tracking against that every day and we're continuing to try and make the best calls, and want to make sure that we're protecting the brand in the right way and not going too far on discounting relative to the environment.

So, really, it's more just about the most prudent planning we think for Q4. It's not really about closing doors.

John Kernan  
Analyst, Cowen & Company LLC

Okay. And then just one – one final question...

Kevin A. Plank  
Chairman & Chief Executive Officer, Under Armour, Inc.
Coming in and out.

John Kernan  
Analyst, Cowen & Company LLC

Sorry, guys. Just the sustainability of international growth into next year. Obviously, that's the highlight of the whole portfolio at this point. Can you just talk to the sustainability of 20%, 25% plus top line growth into next year in international? Thank you.

David Bergman  
Chief Financial Officer, Under Armour, Inc.

Yeah, I can take this one. So, I've had the opportunity to travel around and I've been both in Europe and Latin America, and then also up in Canada over the last four months. And we've been digging into understanding the distribution that we currently have and what we're looking at going forward. And I think the components of where the growth is going to come from differs a little bit depending on where you are.

We believe we still have a big opportunity in Europe, for example, both in wholesale and direct-to-consumer, as we continue to roll out our e-commerce platforms and opening up more wholesale in Europe. We see a continued opportunity in Asia-Pacific to grow in partnership stores, and some owned direct-to-consumer, as well as e-commerce as well.

And in Latin America, it's a little bit of a mix depending on whether you're in Central America or in South America. But the fact is that we only have about $1 billion of our business in international, and if you compare that to the opportunity that's out there, we believe we have an enormous runway for international, and we'll give you guys a lot more color on that as we go into the Investor Day next year, and a lot of work to be done to quantify all of that. But in terms of my experience and what I've seen before, that's currently an enormous opportunity for us. And it's different depending on where you're looking in the world.

So, the great thing is we have the capability and the capacity to expand into either one of those different distribution channels and what we're really spending a lot of time doing now is making sure that we're also building out our category management to be able to segment ourselves into that kind of a structure, also in international and not just here in North America.

John Kernan  
Analyst, Cowen & Company LLC

Okay. Thanks, guys. Best of luck.

David Bergman  
Chief Financial Officer, Under Armour, Inc.

Thank you.

Operator: Thank you. Our next question comes from the line of Matt McClintock of Barclays. Your line is now open.

Matthew McClintock  
Analyst, Barclays Capital, Inc.
Yes. Hi. Good morning, everyone. Kevin, just to follow-up on some of the comments – just the magnitude of the inventory build, as well as the continued promotional environment in North America wholesale, how do you think about launching new innovation into that kind of dynamic?

And I guess, more broadly thinking, it doesn't seem like the North America wholesale environment is going to get much better anytime soon. How are your thoughts evolving using the DTC channel to maybe shift more into where you can control the environment a little bit better? Thank you.

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

I will take that one. So, hi, Matt. I think when we think about our ability to manage the brand across our distribution channels, Dave highlighted how we're going to think about our inventory positions differently going forward. We have a lot of different levers to still pull there.

One of the things that we're of course also doing as we look into the future, is thinking about how we actually plan our business, which I think we could do a little bit better in terms of where we're building inventory and how we think about our go to market strategy.

Ultimately, we believe that by tuning our go to market strategy and the dropping the innovation into the go to market in a commercially ready way at regular intervals, building actually our innovation funnel to be connected to the go to market for our commercial business, is part of the key and unlock to us being consistent in delivery. And at the same time thinking about how we build our inventory through our planning. Those two things in combination, they're working together.

So, when we think about our process here, we think about three components to that process. We think about our innovation process, we think about our go to market process, and we think about our S&OP, or sales and operations planning process. They all three work together and we see opportunity in doing a better job with all three. Making sure that we're dropping the right innovation into the commercial funnel at the right time, and then planning our business so that we don't build as much inventory as we have previously, and actually also supporting the innovation in a better way. And then, ultimately, being able to deliver that product and innovation on time to the right place is going to be the job of course of our backend. I see opportunity in all those three, and putting it together is what's going to ultimately drive a more efficient machine for us.

Matthew McClintock  
Analyst, Barclays Capital, Inc.

Thank you very much.

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

Thank you, Matt.

Operator: Thank you. Our next question comes from the line of Bob Drbul of Guggenheim. Your line is now open.

Robert Drbul  
Analyst, Guggenheim Securities LLC
Hi, good morning. Two quick questions, I think the first one is in the quarter you called out declines in the youth business, but I think both in footwear and apparel. So, I was just wondering the initiatives in place to recapture growth in that segment I think would be appreciated.

And the second question is, can you just give us an update on your Amazon business, and how that’s been trending for you this year especially? Thanks.

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

Thanks, Bob. Let me maybe just jump in at the top and sort of give an overarching where we think we are right now from a consumer standpoint. So, youth is always a great indication for us, and one where we’re really excited about the future of youth, we’ve had great indications and we’ve looked for [ph] forwarding some of our lines. But really, where we believe the brand is right now is that we believe we have a bit of a pull problem. A pull problem for us is just what we’re doing to entice the consumer to ensure that they are desiring the Under Armour brand. And there’s three ways that we’re thinking about doing that. And first and foremost, it begins with product: delighting consumers with product that just exceeds their expectations and has them saying, wow. 90- plus-percent of our assortments have been focused at performance. And as we continue to move ourselves into sportstyle, that’s something that’s not exclusive to just men’s and women’s, but it does go all the way down into kids. We’re going to double down on our performance heritage. It’s something we’re really proud of, and frankly, we think it’s what gives us the ability and the capability to sell to this kid and make sure that we remain incredibly compelling to them.

Secondly is segmentation, particularly around something like youth. With our new distribution, I think that we could have done a better job from segmenting our product lines, but we believe that consumer is very much there for us. Our current composition is something that we feel good about, as Patrik mentioned about our distribution. We believe that we’re in the right doors, as we’re talking to this kid. We just can do a much better job of how we show up and the way that we execute that play.

Third, and finally, is just around demand creation. As we’ve said, we were a pretty quiet brand in 2017, and we’re looking to continue to amp that up. As that relates to our youth business – and this is much more of a holistic answer just across the brand – is that we’re looking at 2017 as a year that we use and focus on internal growth and deciding for ourselves what we’re going to do to truly be an externally focused company that is talking and telling the story of what this brand is, which is what makes us unique and the reason for us being is that every product does something, it makes you better. So, we’re going to make sure that comes through and comes out in every single product that we build. Amazon, Bob?
Yeah. I think we continue to make progress with Amazon, and I would actually include other pure players in that too. I'm thinking now about Zalando in our international business, as well as ASOS in the UK and Zappos here in North America. So I think in general, that's where we see a lot of growth and continued opportunity going forward in our business of course. As the consumer decides to move differently in their purchase journey, we want to make sure wherever they decide to shop with the right content and with the right tone of voice. And as you guys know, we've been with Amazon for a while now, and we believe that it's part of our distribution footprint, and we continue to make progress in the same way that we're also making progress in our own e-commerce. And we're also very excited about actually the work that we're doing currently to roll more of our e-commerce out in Europe where we see great traction for our direct-to-consumer e-commerce business. Hope that helped.

Robert Drbul
Analyst, Guggenheim Securities LLC

Thank you very much. Yes. Thank you.

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

Thank you.

Operator: Our next question comes from the line of Jay Sole with Morgan Stanley. Your line is now open.

Jay Sole
Analyst, Morgan Stanley & Co. LLC

Great. Thank you so much. Kevin, my question is this: it's been very promotional out there, and Under Armours has had this kind of play a part in that. You've always talked about how Under Armour has the brand equity to endure. But, where do you draw the line where you just have to say we have to stop promoting? We can't participate with what else is going on in the environment because otherwise, we risk doing long-term damage to our brand that will be very difficult to recover from?

And what would get you to say stop, we're just going to stop promoting and we're going to start to think about the very long-term future of this brand, the 5 and 10-year long-term game? Thank you.

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

Yeah. Thank you, Jay. I think we're really saying that right now. I think that's a lot about this call and this quarter, the way that we're looking at our business and our brand and thinking about it long-term.

You think about the, sort of the streak of growth that our company had, I hate [ph] ever thinking (01:06:09) that we were sort of caught up or compelled by trying to manage something just for the sake of, we did it the quarter before. We really are thinking long-term and globally.

With a business that's balanced between $1 billion women's business, $1 billion footwear business, $1 billion international business that all combine into a business that still today though is 80% or close to 80% done here in North America. Balance is incredibly important for this business and this brand. And hopefully, you always get that thoughtfulness from us about the way that we're thinking long-term with the brand.

As I said earlier, we're not thrilled with things like what we've delivered from footwear, where we have product that will delight; incredibly excited about our new upcoming HOVR running launch that we'll have this spring. Incredibly
excited about the demand driven around Curry. We just see the ability for us to just be better; to be better across the organization, be better across the brand. And that's what 2017 was really about us doing is focusing on the internal growth to put ourselves in a position for long-term scale, and to be able to exercise across those.

So, we've never had to pull the pricing lever. You've seen with the promotional environment that began in the fourth quarter of last year, that's what caught us by a bit of surprise, and found us reactive. And as that extended with [ph] MAP (01:07:31) policies basically going away from the competition, it made it an incredibly promotional environment. And so, there's places where we just frankly had to play, we believe that. But long-term, particularly as we look at the relationship of what's happening with wholesale versus what we're doing with our own digital, and our ability to really be able to segment that product and differentiate that product. As we become a brand that moves beyond a ColdGear Mock or a HeatGear T-shirt, where we have true diversity in our line, I think you'll see us with the ability to do that.

And so, we don't want to claim – Under Armour was never intended just to be an really expensive product that was sort of out of reach. It was meant to be affordable luxury. But it was also meant to be full price affordable luxury. And so, hopefully that comes across in everything that we do. And we don't expect to see for-sale signs on our brand. 2017 has definitely taught us that we need the capability of that stroke when we're clearing products. But for the most part, we want to be smart, we want to be prudent, and we want to be product that's meant and built to sell at full price.

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

I think it's also a change in culture internally from being a sell-in to more of a sell-through mentality. In other words, being more of a direct-to-consumer mentality versus just a wholesale mentality. And I think that's important, and Kevin and I both recognize the importance of staying closer to consumer in the current environment. So that means planning your business, that's one of the things that we're really looking at too. To ensure that we plan into less promotions as we go into 2018 and beyond.

Jay Sole  
Analyst, Morgan Stanley & Co. LLC

Okay. Thanks so much.

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

Thank you, Jay.

Operator: Thank you. And our next question comes from the line of Omar Saad with Evercore. Your line is now open.

Omar Saad  
Analyst, Evercore ISI

Thanks. Good morning. Thanks for taking my question. I just have one to ask. Kevin, you mentioned early in the prepared remarks about kind of reprioritizing and de-emphasizing certain investments. I was hoping maybe you could give us some insight into the internal management process for capital allocation and resource allocation? And how that's evolving from yesterday, today, tomorrow? How you think about making those investments, and maybe some anecdotes about where you're shifting your investments from and to? Thanks.
Kevin A. Plank  
Chairman & Chief Executive Officer, Under Armour, Inc.

Thanks Omar. I'm going to let Dave jump on that one.

David Bergman  
Chief Financial Officer, Under Armour, Inc.

Yeah, Omar. We are looking at it from a lot of different angles here. We're prioritizing the new CapEx to ensure everything aligns with our longer-term strategies. We've got a great capital committee that focuses on that. In that we're doing some things around we talked about slowing down North America brand, how it's build, and tempering some of the North America wholesale fixture buying. Just keeping really an eye on the market and investing where the best return is going to be.

Also looking at relative to our DTC and office and distribution center expansion space, and trying to be as prudent as we can relative to when we need to do any of that. Continuing to review our operational structure and how we can simplify and add it better there. Continuing to address real estate, looking at store locations, looking at our office space and distribution center space, and are we as tight and operationally effective there as we possibly can be. Continuing to dig in on other SG&A [indiscernible] professional service fees, T&Es and all the customary areas there.

So, we are kind of looking at that across the board, and looking at it much more with an ROI lens than we've done in the past. But at the same time, we've got to make sure that we're protecting those areas of long-term growth. So, making sure we're protecting and prioritizing international expansion, e-commerce development, footwear design and development, areas like that, while we continue to dig in deep and kind of right size the cost structure.

So, there's a lot of different angles that we're looking at it right now. But again, trying to make sure that we're looking at things from an ROI lens, and really driving all the way down through to ROIC is what we're trying to do.

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

And Omar, so we've always had – I think that ROI approach, it's obviously coming through a different lens as Dave says. But that's what the addition of Patrik being here, sort of the trinity of Dave and Patrik and myself of really making sure that A, we are partnered and working together, that we have a clearly articulated strategy that's understood by the organization throughout the company, and that we're driving that through and putting money on the things that are going to get us the return. So, we've got a lot of low hanging fruit, you hear me say sort of anecdotally women's, footwear, international, the places that we're invested in, we're there, just with the right kind of smart spending we can win.

So, I've used the saying is that we can do anything, we just can't do everything. That's never been evermore true. We're really focused, and I think really thinking about through the things that are going to get us the biggest return. We don't need anything else. We don't need to buy anything else. We have plenty of real estate. We have plenty of assets. We have plenty of categories that we're in. We just need to focus on becoming excellent everywhere that we do business.

And so, that's hopefully one message that comes across from this call is our commitment, our teamwork, the strategy that we have in place, and the way that we're looking to just go run the play in 2018, puts this company in firm footing and allow us to storm and march forward, and get us back in that growth pattern. But right now, we're going to be internally a great operationally excellent company.
Thanks, guys. Thanks for all the details today.

Thank you, Omar.

Thank you, Omar.

That will conclude our call today. Operator?

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

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