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Under Armour, Inc. (UA)

Q4 2018 Earnings Call

CORPORATE PARTICIPANTS

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

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

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

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

OTHER PARTICIPANTS

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

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Randal J. Konik
Analyst, Jefferies LLC

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Robert Drbul
Analyst, Guggenheim Securities LLC

MANAGEMENT DISCUSSION SECTION

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

I would now like to introduce your host for today's conference, Lance Allega, Vice President of Investor Relations and Corporate Development. Sir, you may begin.

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

Thank you, and good morning to everyone. Thanks for joining us on today's call to discuss Under Armour's fourth quarter 2018 and full year results. Participants on this call will make forward-looking statements. These statements are based on current expectations and are subject to certain uncertainties that could cause actual results to differ materially. These uncertainties are detailed in this morning's press release and documents filed regularly with the SEC, all of which can be found on our website.

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 for 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's Chairman and CEO, Kevin Plank; President and COO, Patrik Frisk; and CFO, 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 we really appreciate you joining us today. Before we get into our prepared remarks in 2018, I'd like to take a moment to reflect on what an amazing 2019 it's already been for Under Armour's ranks of world champions, MVPs and partnerships. From Tom Brady winning his sixth Super Bowl championship to Stephen Curry and Joel Embiid who are starting in this weekend NBA All-Star Game, to joining forces with Zhu Ting, the number one ranked volleyball player in the world; and our recent partnership with Virgin Galactic to create a new generation of space apparel and footwear for astronauts as well as an astronaut-specific performance training program.

Our brand is off to a great start. And with a well-deserved nod to one of Under Armour's longest tenured athletes, one that redefined Alpine Skiing as we know it with 82 World Cup wins, 20 World Cup titles, 3 Olympic medals and 8 World Championship medals, Lindsey Vonn has accomplished something that no other woman in history has ever done. We are incredibly proud to have been a part of her journey and legacy. Thank you, Lindsey for the amazing year supporting our brand and making our job so much fun. Looking forward to what we do together next.

With respect to our internal team roster, we're also pleased to welcome Tchernavia Rocker to the Under Armour family, as our Chief People and Culture Officer. As a 22-year veteran, she brings deep expertise and a proven track record of best-in-class HR practices to our team. So very happy that she's here, excited for what the future holds. And with that, let's get back to 2018.

On our call a year ago, we spoke about working to create a more stable business for Under Armour by transforming our operating model and long-term strategy to significantly strengthen our foundation. Ultimately, an operational, strategic and cultural transformation with the goal of empowering greater capabilities, more disciplined, efficient processes and a structured designed to protect and fuel our brand for sustainable profitable growth over the long-term.

While the past year has certainly presented a number of challenges, our fourth quarter and yearend 2018 results demonstrate both stability in our business and the emerging strength of our operating model to deliver more consistently for our consumers, customers and shareholders.

As we closed out 2018, we held an investor meeting where we provided an in-depth overview of our 5-year strategy and the key initiatives designed to drive growth and profitability through 2023. At the core of this strategy is a clearly defined consumer, supported by disciplined go-to-market process, data science and analytics, and an accelerated innovation agenda. To get perspective on our past and present, and how we're thinking about the future, we use a chapter construct to detail our strategic and operational assumptions, and the things that could impact our business moving forward.

In this respect, 2018 marked the second year of the 2017 to 2019 chapter, which we refer to as Protect This House, where we are focused on running a smarter, faster, and stronger business, and committed to protecting the $5 billion global brand that we built. With two years in the books of what we believe will prove to be the most transformative phase in Under Armour's history, the offensive and defensive strategies we've employed are empowering us to make better decisions and deliver consistent results, results that we're proud of and results that have delivered against last year's objective of strengthening our foundation, and transforming our operating model.

With that, let's review some full-year 2018 highlights, which are a bit better than the outlook we gave on just December 12. Total revenue grew 4%, and reached $5.2 billion with balanced growth from our wholesale and DTC businesses, which were up 3% and 4% respectively. As a percent of total revenue, DTC was 35% for the full year. In line with expectations, North American revenue was down 2%, and our international business was up 23%, driven by continued growth in EMEA and Asia Pacific. Also in line with expectations, apparel and footwear were up 5% and 2% respectively, and accessories was down 5% for the full year.

Reported gross margin was unchanged from the prior year at 45.1%, which includes approximately $21 million in restructuring charges. Excluding these charges in both periods, adjusted gross margin was 45.5%, an increase of approximately 30 basis points driven primarily by product cost improvements, lower promotional activity, and foreign currency changes, which were offset by channel mix. And with respect to channel mix, this gross margin improvement is made even more remarkable by the fact that we made a strategic decision to significantly reduce our inventory position throughout 2018, resulting in elevated sales to the off-price channel, which carries a lower margin.

In fact when you consider we ended 2017 with a 26% increase in inventory, and we ended 2018 with a 12% decrease in inventory, whether considering we held GAAP gross margin flat or posting a 30-basis-point improvement on an adjusted basis, executing a 38-point drop in comparable year-end inventory positions, truly demonstrates the commitment and incredible resilience of this team and our brand. And what we're capable of as our operational, structural and cultural transformation continues to take hold across the business.

Moving to SG&A, we are continuing to work through our highly committed cost structure and asset build over the past few years, and are making good progress. From SG&A dollar growth of 22% in 2016 to 14% growth in 2017, and 4% growth last year, we're prioritizing this line item as a key unlock to driving higher optionality for investing in our brand, while increasing returns for our shareholders, which takes us to the bottom line, where we reported an operating loss of $25 million for the year, or $0.10 of diluted loss per share, which on an adjusted basis is $179 million of operating income, which is $0.27 of diluted earnings per share.

In total, 2018 was a productive, evolutionary year for Under Armour, one that we delivered against our plan and made great strides forward in our transformation. With an improved go-to-market process and powered by significant SKU reductions, a shorter calendar, and an enhanced regional structure, we're back on offense.

As we work through 2019, we will seize the opportunity to stay on offense to Protect This House by remaining focused on the things that will continue to keep us healthy this year and beyond, including: first and foremost, it starts and it ends with the brand, the brand, the brand, and delivering innovative products and experiences that make our athletes better; secondly, further optimizing operations and investments to maintain our premium athletic performance brand positioning; third, building even stronger relationships with our customers; and finally, delivering appropriate financial performance, while ensuring our ability to deliver sustainable profitable growth over the long-term.

In closing, our operating model is working, and we're confident and committed to our long-term strategic plan. We are in control, in command of our business and actively applying the lessons we've learned. We're also acutely aware of just how special the Under Armour brand is, and most importantly, the hard work, choices and effort it has taken, and will take from this team to keep it in reverence for the years to come. I am proud of the entire global team and I'm excited about what lies ahead for Under Armour.

And with that, let me hand it over to Patrik.

Patrik Frisk

President & Chief Operating Officer, Under Armour, Inc.

Thanks, Kevin. As I reflect on 2018, I'm particularly proud of the fact that simultaneous to the achievement that we've accomplished throughout our transformation, we've continued to grow, including $5.2 billion worth of Under Armour performance product that was sold around the world last year. This is a testament to our brand and the trust that athletes put into our ability to make them better.

We are thankful for this. We do not take it for granted. And with only a handful of mono-branded footwear and apparel companies north of $5 billion, we know that we have to earn it every day, everywhere and every time we show up and consumers engage our brand. That includes about a third of our business, which is direct-to-consumer and the two-thirds from our wholesale partners who are vital to our success as we grow the Under Armour brand globally.

At our Investor Day, we spoke at length about protecting our brand through selective, optimal, and premium wholesale distribution. Having stabilized our business in 2018 and dramatically rightsizing our inventory, we look forward to the numerous opportunities we have with our retail partners to ensure our positioning and growth is mutually beneficial around the world.

So, where are we at the end of 2018? Exactly at the point I'd hoped we'd be at this point in time. From a product, operational and regional perspective, we made great progress against multiple initiatives to [ph] keep (10:42) our team with the structure, process and tools necessary to support our long-term growth strategy. Starting with product, in 2018, we delivered newness, innovation and in some cases, scarcity more holistically and methodically than ever before, all within the improvements of our go-to-market framework allowing us to tell sharper stories and engage with our consumers.

In our run category, we launched our third cushioning platform, Under Armour HOVR, which has helped to amplify our consideration with technical runners as well as our overall brand exposure. Employing a tighter distribution strategy, new jobs and expansions into other categories throughout the year, coupled with a more holistic go-to-market framework and consistent always on storytelling, has continued to drive strong results for us. As we look ahead into 2019, we expect HOVR to continue to fuel this important category growth driver with new performance styles including Infinite, [ph] Mega (11:36) and Guardian as well as generation two versions of Sonic and Phantom establishing franchisees from which to build upon.

In our largest category, train, we saw continued success in key innovation stories like Reactor and Threadborne as well as strong wins and more exclusive offerings like Project Rock, Unstoppable and our women's collections, driving newness, innovation and style to our consumers through sharper segmentation and differentiation. And this is a really important point. As we continue into 2019, we believe that our assortments, product flow and cleaner inventory positions will create greater opportunities for clear differentiation, and therefore, improved segmentation amongst our retail partners. From an innovation perspective in train, you'll hear a lot about Rush, Recover and HOVR this year, Under Armour's advanced performance solutions across apparel and footwear that bring energy reflection, transmission and restorative benefits to help make you better.

Within Sportstyle footwear, a small, but powerful cultural connection for our brand, throughout the year, we continued to cultivate style with performance through limited releases of products like Forge 96 and SRLo along with leveraging our heritage and technologies from our place of performance into styles like HOVR SLK and Breathe Lace for women.

And finally, within core sports, our Curry franchise continues to drive elevated brand relevance and authenticity in basketball. And our team sports businesses continued to deliver the best product for athletes on the field, in training and on the sidelines. Across each of our core sport categories and the teams we outfit, our focus remains centered on delivering innovative performance solutions that you never knew you needed, but once you have them, you can't imagine living without. In 2019, we will be even more deliberate and precise in giving our athletes every edge to push their limits.

So, great progress and solid momentum in product and our categories, all of which, of course, depends on execution, discipline and operational excellence, which brings me to our strategic operational priorities in 2019 where we're focused on four areas of cross-functional excellence across our global business: global structural alignment, category evolution, marketing transformation, and process redesign.

First, as we continue to expand globally, we will be heavily focused on empowering our regional businesses with a stronger, more consistent structure, and operating model, including dedicated and localized support functions. This will help to drive greater uniformity and inter-global alignment from a strategic, operational and financial perspective to ensure that we properly leverage our scale, while driving optimal business results that focus on protecting the brand.

Second, we are working to further unlock the strategic benefits of our category structure, while ensuring we stay appropriately leveraged at the crossroads of our accelerated innovation pipeline, consumer insights, speed to market and rates of return. As we laid out at our Investor Day, with each subsequent season, you will see better holistic synergy, particularly as we enter into 2020 where the first full season would come to market that has been designed, architected and executed under our shorter 17-month calendar.

Third is our marketing transformation. With a clearly defined understanding of our target consumer and where and how we plan to compete, we are moving toward better strategic and tactical executions, using insights and data analytics to inform clear return based and brand-right decisions. Continued investment in social, personalization and agile testing, along with shifting to an always-on mentality is the top priority in this effort, which over time will yield more prescriptive and high return opportunities to drive greater engagement, preference and considerations.

And finally, our fourth area of focus is process redesign, and the primary backbone that it serves for our transformation. With the synchronization of the consistent go-to-market along with our sales and operations planning processes, the final steps are locking into place to ensure that our goal of improved consistency, predictability and repeatable processes are driving results. This effort has already produced a meaningful reduction in tactical steps, approvals and previous gates that were counterproductive to our efficiency.

In this final year of our Protect This House chapter, it will be about operating and optimizing the process to an even deeper level, letting the structure, method and tools needed to support our strong global performance brand Settle In and Breathe throughout the organization. With these four enterprise-wide priorities progressing forward, our ability to generate greater agility and balance will help us ensure we continue to protect the investments in our largest long-term growth opportunities, including direct-to-consumer, footwear, women's and international.

Turning to a regional perspective, protecting our brand remains our key focus as we managed the marketplace appropriately with the right level of discipline to drive balanced growth. For North America that means we are at a point of stabilization. Inventory is cleaner and tighter to demand. Our pricing and promotional activities are normalized at lower levels than just two years ago and our product segmentation strategy continues to get sharper.

In our international business, which is now more than a quarter of our total revenue, we will continue to make prudent investments to protect and drive brand-right profitable growth. In this respect, many of the lessons we learned and the discipline we instituted in our North American business in 2018, will be applied internationally in 2019, including distribution optimization and strategic inventory management actions to ensure that we protect our premium brand positioning.

Accordingly, we are making decisions to optimize, grow and invest at the right pace for each region to ensure that we leverage the knowledge and scale we have built as we continue to grow our presence outside of North America. There's work to do to get our international regions into better stability and consistency from an operations and strategic perspective, and we believe the actions we will take in 2019 will allow us to exit our Protect This House chapter with all of our regions operating more efficiently, consistently and profitably.

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

David E. Bergman

Chief Financial Officer, Under Armour, Inc.

Thanks, Patrik. Before I round out today's call with details on the fourth quarter of 2018 and review our expected outlook for 2019, I'd like to provide some more context around the 2018 restructuring plan and the one-time items that impacted us during the quarter and full year. As detailed last September, we expected to incur approximately $200 million to $220 million in restructuring charges in 2018. For the year, we came in on the lower end of that range at $204 million, including $50 million that was realized in the fourth quarter. We do not anticipate a new restructuring plan or any further charges in 2019.

Turning back to our results, let's start with the fourth quarter. Revenue was up 2% to $1.4 billion, or up 3%, if you exclude the impacts of foreign currency. Clicking down by channel, sales to our wholesale customers were up 1% to $737 million, driven by growth in our international regions. Direct-to-consumer revenue was flat compared to the prior year at $577 million and represented 41% of total revenue in the quarter. For context, it's important to keep in mind that promotional activity in North America was down by about one-third compared to 2017, which created a more difficult comp in the second half of the year. However, we believe this is the right strategy to drive our premium positioning. In line with our expectations, licensing increased 39% to $46 million primarily driven by royalties received from our stocks and Japanese businesses.

By product type, apparel revenue in the fourth quarter increased 2% to $970 million, including growth primarily in our train category. Revenue for our footwear business was down 4% to $235 million driven by lower sales to the off-price channel. And accessories revenue was down 2% to $108 million, due to softer demand and continued actions to optimize our inventory and distribution.

By region, in line with our expectations, revenue in North America was down 6% in the fourth quarter, primarily driven by contraction in our wholesale business, coupled with lower sales to our off-price channel. In EMEA, revenue was up 32%, driven primarily by growth in our wholesale business, and continued strength in DTC. Revenue in Asia Pacific was up 35% with growth in wholesale and DTC. Between our owned and partner doors, we now have over 660 locations in the region with the majority in Mainland China. As we continue to expand in this key region, our focus on performance and our commitment to maintaining our premium positioning will remain center to our execution.

And finally, revenue for Latin America was down 15%, driven primarily by the business model change in Brazil, which transitioned from an owned subsidiary to a licensing and distributor model, which carries lower yet more profitable revenue. We will continue to see this model change negatively impact the year-over-year revenue comparison through the majority of 2019. And finally, our Connected Fitness business was up 9% to $30 million, driven by continued strength in subscription revenue.

Turning to gross margin, we saw 160-basis-point improvement to 45%, inclusive of a $2 million impact related to restructuring efforts. Excluding restructuring charges in both periods, adjusted gross margin was 45.1%, an increase of 160 basis points. To break this down more, benefits in the quarter included approximately 80 basis points of channel and regional mix, 60 basis points of improvements in product cost and lower promotions, and 50 basis points of benefits due to lower airfreight. These benefits were partially offset by about 30 basis points of foreign currency headwinds.

SG&A expense decreased 1% to $587 million in the fourth quarter, which was slightly better than we expected. Fourth quarter operating loss was $10 million, and our adjusted operating income was $40 million.

Our effective tax rate in the fourth quarter was 122% or negative 30% on an adjusted basis. As a reminder, in the fourth quarter, we had a one-time tax benefit related to an intercompany asset sale. This contributed approximately $0.04 to EPS. On a full year basis, our adjusted effective tax rate was 11%. Without the one-time fourth quarter benefit, our full year adjusted effective tax rate would have been approximately 14 percentage points higher. Taking this to the bottom line, net income was $4 million or $0.01 of diluted earnings per share. Adjusted net income was approximately $42 million or $0.09 of adjusted diluted earnings per share.

Turning to our balance sheet and cash flow statements, where we are also seeing productivity gains and improvements. A few highlights would include: a 78% increase in cash and cash equivalents to $557 million; a 21% decrease in total debt to $729 million. And to add a little more color to this, throughout 2018 and into the first quarter of this year, we have successfully paid down $326 million in debt, including early payoff of all remaining term debt; capital expenditures were down 25% to $56 million, and for the full-year, capital expenditures were down 43% to $154 million or 3% of revenue, which is at the lower-end of the long-term operating principle we discussed at our Investor Day; and finally, our cash flow from operations improved by $391 million year-over-year. The progress, discipline and stability that we are instilling and driving across the organization is taking hold.

So with that, let's move on to our 2019 outlook, which we are reiterating from our Investor Day in December. To quickly recap and provide some more color, we expect revenue to increase approximately 3% to 4%, reflecting relatively flat results for North America and a low double-digit percentage rate increase in our international business. Diving deeper into the regions, within international, we expect EMEA and Latin America revenue growth to be up at a high single-digit percentage rate, and Asia Pacific to be up at a high-teen rate for the year. From a channel perspective, we expect wholesale revenue to be up at a low single-digit rate and DTC to be up at a mid-single-digit rate. Within our product segments, we expect apparel and footwear to both grow at a low to mid single-digit rate and a flat to a low single-digit decline in the accessories business.

Gross margin is expected to increase approximately 60 basis points to 80 basis points compared to 2018 adjusted gross margin due to channel mix benefits from lower planned sales to the off-price channel and a higher percentage of DTC sales, along with continued product cost benefits from ongoing supply chain initiatives. We expect operating income to reach $210 million to $230 million. Interest and other expense net, is planned at approximately $40 million. And the effective tax rate is expected to be in the 19% to 22% range. Diluted EPS is expected to be in the range of $0.31 to $0.33 and capital expenditures should be approximately $210 million.

To give a little more color with respect to the first quarter, we currently anticipate revenue to be flat to slightly down. In addition, first quarter gross margin should be up about 20 basis points to 30 basis points versus last year's adjusted gross margin with benefits from regional mix and product cost improvements, being primarily offset by channel mix due to an expected lower percent of DTC as well as higher sales to the off-price channel as our more aggressive inventory efforts begin to normalize.

We expect both of these first quarter headwinds will shift to become benefits for the full year. Operating income for the quarter is expected to be about $5 million, which after interest expense and other puts us at about $0.01 of diluted loss per share. Also of note, given the continued focus on inventory management during the quarter, we expect inventory levels at the end of Q1 to be down at a mid-teen percentage rate.

And before we close out, I want to mention one reporting change we plan to implement in 2019. Given the size, scale and expected long-term growth rate of our international business, and a growing portion of global corporate overhead costs, which to date have primarily been recorded within our North American operating segment, beginning in the first quarter of this year, we will begin to break out a new sixth reportable segment known as Corporate Other. We feel this change will provide improved visibility with respect to the operational performance and underlying results of these businesses as individual segments coupled with more consistent comparability across our peer set and sector.

So with that, as we close out today's prepared remarks, we are confident that the progress we have made over the past two years will ensure a stronger Under Armour brand that is more consistent, disciplined and balanced, yielding operational efficiencies and improvements necessary to support our long-term strategic objectives and deliver for our consumers, customers and shareholders.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from Jonathan Komp with Baird. Your line is open.

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

Q

Yeah. Hi. Thank you. Maybe first, just following up on some of the guidance you just gave, Dave, I'm wondering if you could give any more context as you look to the first quarter and maybe even first half, second half, any thoughts on the regional performance when you look at North America? Since I think that's part of what you mentioned around the D-to-C and headwinds you are seeing in the first quarter where some of that falls. So, any more color kind of North America versus broadly what you expect for growth rates, may be first half second half or first quarter?

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

A

Yeah, Jonathan. When we think about Q1 of 2019, it's been planned as the decrease that we mentioned, so it's not really any change there from what we've been thinking, relatively flat to slightly down, driven by mid-single digit decline in North America and more of a low double-digit increase in international growth. And when you think about within North America for Q1, remember we are lapping higher sales to off-price channel in Q1 of 2018. Also we had some service level challenges in late 2017 and early 2018. That can negatively influence how wholesale partners buy in relative to Q1 in 2019. So, we've been improving a lot there, as we move forward beyond that.

We do have a little bit of continued contraction in the wholesale accounts that we're keeping in mind for Q1 as well, lesser degree than 2018. And then when you think about DTC relative to our expectations there with traffic and conversion, we do have more normalized promotional levels. We've got less brand houses in Q1 in North America than we did a year ago due to some of the restructuring exits. We also have a little bit of an Easter shift impact between Q1 and Q2.

And then lastly, also from a product perspective, we have a bag or an accessories reinvent that we're doing in Q2. So, the Q1 sales in are a little bit tempered as we lead into that reinvent. So, that'll give you a little bit of color on North America. When you think about around the world, again more of a low double-digit across total international for Q1, but when you think about within Latin America, for example, we are comping a previous full subsidiary model in Brazil versus the new license and distributor model. So hopefully that gives you a little bit color on the quarter. For the full year, we're probably not going to get into the rest of the quarterly flow at this point, but hopefully that helps you with Q1.

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

Q

Okay. Certainly, helpful. Maybe then my broader question really relates to a lot of the other initiatives. And I know, Patrik, you mentioned early 2020 is maybe the first time when it all starts to come together. But my question is when you look at 2019, some of that new product you're starting to put into the market, can you maybe talk a little bit more about what you hope to see in terms of signs that your initiatives are working and starting to gain traction? And maybe even tie in with that near-term your willingness to make that, so to speak, on some of the new product that you're putting out and how that might change over time, as you gain more confidence.

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

Yeah, sure, absolutely. Actually, it's already started to happen. We launched our second year of HOVR with new styles about two weeks ago now with the Infinite, which is actually our first real performance running shoe and we are very super excited about the performance that we're currently seeing there. We feel the same kind of tailwinds that we actually got last year. If you remember when we launched the Phantom and Sonic last year, we talked a lot about that in the first half of the year.

What we're doing now is we're actually building on those two franchisees. They're actually coming out with their second iterations and we also see great performance with both Phantom 2 and Sonic 2. But we're building on that whole new platform of HOVR with three specific styles: the Infinite, which is kind of the lead style, a high-performance running shoe, has received incredible reception; we also have the Guardian which is more of a stability shoe and we have the [ph] Mega (32:34) which is more of a cushioning shoe. And all of those three things are launching now this spring. And we're very excited about them. We're very excited to see the tailwind.

And again, here's repeatable outcomes. We're really taking everything that we learned last year, and we were excited when we broke through with the HOVR platform last year and we're doing it even better this year. In other words, taking all the learnings because we now have this new go-to-market, we can do this in a better way in a more repeatable way. So, we're driving that from a footwear perspective, especially in the first half of the year. We then got Rush and Recover, which is really a reinvent of our compression platform, if you like, and we're combining that with the Recover product which is now starting to really work with the athletes to cover them from a 24/7 perspective, not just when they're in the activity, but also after. We're very excited about that. That's launching in early April.

And we're following that up with cold weather gear in those categories, also as we turn the corner into the back half of the year. So, a very deliberate go-to-market this year with really strong product launches and we're supporting it with a louder brand, being more deliberate with our marketing. We talked a lot at our Investor Day around all the work that we're doing to really understand the return on marketing investment. We're now able to start to deploy that to spend each dollar smarter, make each dollar work like three. And we're able to do that across all of the touch points of the consumer, not just in digital, but also in our direct-to-consumer business in terms of retail and our wholesale partners. So, a lot of info there but I just wanted to give you a little bit of sense of the comprehensive and thorough way we're now going to market for 2019 and we're very excited about the products that we're launching.

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

Thanks, Jonathan.

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

Thank you.

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

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey, good morning, guys. Thanks for taking my questions. I guess first a housekeeping question, the restructuring charge in 2018 came in a little lighter than you had expected at the low end. Were there any changes in the scope of the restructuring, and are there any implications for the restructuring benefits longer term? And then second, Kevin, you'll really be doubling I think on the performance, heritage and story of the business, I guess, how do we think about how you articulate that to consumers and deemphasize that Under Armour is about performance? Thank you.

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

A

Ed, this is Dave. I'll take the front of that with the restructuring. We did come in little bit at the lower end of our range. But really it wasn't a change in the activities that we identified or the opportunities that we identified as far as less opportunities. It was more that we were able to negotiate some of those exits at a little bit more favorable terms than we really originally anticipated. So, no real impact relative to the future benefits, but a little bit of a win just in the negotiation process for us.

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

A

Ed, I think what you've heard us say incredibly clearly is that we're going to double down on performance. And you've heard Patrik and all of us, give this, we believe what may be perceived as a weakness for us today is actually going to be our greatest strength. We understand what the trends are. We understand what people are saying. We get athleisure in some of that movement. But we believe that, Under Armour was born on field as a performance brand, technical in its nature, what we do and how we do it, and the ability for us to go after and really be able to utilize a lot of the things that we've implemented over the last couple of years.

But having a sharp point, the world doesn't need another version of a brand that may be working today. And so, we've seen that, especially the cyclical in nature in our industry in general, and so we want to make sure that we can own that position and real estate of the consumer when they are thinking about being in a performance mindset, we're going to have them. We articulated that as the focus performer on our Investor Day, and it's something that we're going to be continuing to come back to. But all of this doesn't happen, because we've always had that positioning. We've always made cool product. But at the end of the day, you watch the consumer begin to move in a different direction for us. And so I'm really excited about our ability to actually get that story out.

The go-to-market process that Patrik mentioned has been critical. But when you look at the transformation of the business over the last four years, to get us to where we can make as we say a repeatable process to do this over and over again, I think it's something it sets us up for what that next leg of the journey is going to be.

But let me just expand that into our ability to talk about the conversation of how we're going to really attack this consumer. So it doesn't mean we're not going to make great product. It means that anytime that Under Armour makes a product, it will have a performance attribute to it, that's actually founded and built on field. For instance, when we did the Virgin Galactic launch, we were talking about product we're putting into [ph] sending (37:28) people into space. And every product that we're going to use to build those space suits for the astronauts is product that's actually going to be commercially available this year. So I think that type of innovation is what really gives us our basis. And of course, the table stakes it should just look great and should be stylistic and so we'll be there as well.

Edward Yruma
Analyst, KeyBanc Capital Markets, Inc.

Q

Hey. Thanks very much.

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

A

Thank you, Ed.

Operator: Thank you. Your next question comes from Alexandra Walvis with Goldman Sachs. Your line is open.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Good morning, and thanks for taking the question. First question, you mentioned some process redesign, which would continue to benefit the cost structure in 2019. Can you give us some examples of that, and how that's expected to benefit the SG&A as we move into next year?

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

A

Yeah. I mean, there's a lot of different areas that obviously we are tackling through the restructuring. A lot of it has to do with our facilities, some of our stores, a lot of it has to do with contracts and commitments that we have that we didn't feel like we are getting the same amount of benefit. Some of it was dealing with stressed inventory. So there's a lot of different areas we tried to make sure over those two years that we didn't really leave any stone unturned. And some of those negotiations are for longer-term situations. And so, some of those benefits we won't start to realize until later in 2019 or maybe into 2020.

So for example, if you negotiate the exit of a facility, but you still need to be in that facility through say September, you're not going to get that full benefit in 2019, but you get a full year benefit in 2020 and beyond. So when we think about a lot of those things, it's certainly our intent to continue to leverage our SG&A line. We made a lot of progress as Kevin noted with a 22% growth in 2016, down to 14% in 2017, and down to 4% in 2018. But again, as we mentioned at Investor Day, it's really about executing against that strategy of balancing savings, identified through all those efforts with the right investments aligned to support our long-term strategy.

So there's still a lot of areas where SG&A is increasing for the right investments around international regions, especially APAC, also around DTC globally, innovation and also continued geographic and capability expansion of our global ERP system. So we're not really stepping off the gas on investments in the right areas for long-term profitable growth. And some of those benefits from the restructuring efforts will take a little bit longer to come through. So, you'll see more meaningful SG&A leverage capabilities in 2020 and beyond.

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

A

Yeah. And I would add to that, that you know we've put some of the foundational processes in place like go-to-market, S&OP and so forth. We're now going into tuning in all our planning processes, our marketing transformation processes and also turning the corner into that 17-month go-to-market calendar in 2020 is work that's actually happening in 2019, right? So there's still a lot of work to do to make sure that we're making these processes work for us and become robust. And so there's a lot of tuning that will happen in 2019 as it relates to the process redesign.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Great. That's very clear. Thank you. And then just a follow-up on the marketing point Patrik, you mentioned becoming a louder brand in 2019, and being more deliberate and efficient with marketing. Where did marketing end up in 2018 as a percentage of sales? And should we expect that to ramp in the coming year or for that louder brand piece to be offset by the efficiency?

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

A

I'll take the first part of that Dave and then you can do the numbers. I think when we think about marketing today, the way we think about it now that we've become a little bit smarter with all of the return on marketing investment and data analytics that we're doing as we built out that capability is really truly understanding the journey of the consumer, understanding how that consumer moves through their purchase journey when they're in the area of looking to invest into something for an activity and then making sure that we're there, whether it's in the digital or real world so to speak and making sure that we're delivering the right content, the right tone of voice at that moment in time and doing it in an Under Armour appropriate way. It's about getting really a lot smarter in that way. That's really what we talk about when we talk about marketing today. So it's really making sure we're understanding the consumer journey and then being there when we have an opportunity to interact with them. Dave maybe you want to take some of the others.

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

A

Yeah. As far as where we landed 2018 we're around that 10.5% of sales as far as marketing and we've historically planned marketing in that 10% to 11% range and that's kind of where we feel good. What we're excited about to Patrik's point though is the power of that 10.5% or 10% to 11% should be a lot stronger going forward with all the roaming work we've been doing and also with the restructuring and freeing up some marketing dollars where we don't think the return has been as strong and being able to reinvest into the right spots. So, it's probably similar planning principle to the amount of marketing dollars, but hopefully a lot more return for that same amount of dollars.

Alexandra Walvis
Analyst, Goldman Sachs & Co. LLC

Q

Thank you.

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

A

Thank you, Alexandra.

Operator: Thank you. Your next question comes from Randy Konik with Jefferies. Your line is open.

Randal J. Konik
Analyst, Jefferies LLC

Q

Yeah. Thanks a lot. I guess I want to talk on the geographic side of the regions. I guess, first for Kevin, I wanted to – since Asia-Pacific is the most profitable region for the company and it looks like profits actually accelerated nicely in the fourth quarter compared to the parts of the year. You talked about maintaining that premium-price position, but kind of flesh out other ways that the APAC region has really been setup for this current success and then long-term success.

And then you know, taking it over to Dave, I want to know kind of what happened in EMEA in the fourth quarter to impact the profit rate in that quarter. And just kind of more broadly as it relates to EMEA and Latin America, how do you think about the long-term profit margin kind of model or how do we start to get scale, particularly in Latin America you talked about the change in the business model there? But just curious on how we kind of, we got good color from you at the Analyst Day on the sales side, just trying to get some perspective on the margin and scaling out the business side, particularly in Latin America and then to a lesser degree in EMEA. Thanks.

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

A

Hey, Randy, I'm going to hijack your question a little bit and then I am going to toss it to Patrik. But I just want to make sure that we drive the point down is that in this Protect This House chapter what's been accomplished in the last few years to several years has been replacing the go-to-market process as Patrik mentioned. And that's a clearly defined organization from strategy, supply chain, product, marketing, sales, the systems upgrade with the SAP implementation in the middle of 2017, the leadership that we have, the cultural transformation, but Patrik being in the chair and really I'd say the global operating model creating the four regions. So when we talk about this where just a few years ago we would have said the North American company that's selling product in other places, today we have a fully built out structure that's in Asia-Pacific and Patrik looks over that with a really terrific leader and team that we have over based out of Shanghai and soon to be Hong Kong.

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

A

Yeah. And we're really thinking through the global picture exactly like Kevin said in terms of holistic view on the brand. And really nothing has changed, right, in the last 60 days since Investor Day. We're looking to ensure that we're stabilizing North America, right. We're making sure that we're protecting our premium positioning and driving profitability around the world with the lessons learned also in North America.

And when it comes specifically to APAC, it's really about controlling the pace of growth to really make sure that we are staying strategic brand right as we grow in that region. If you remember, we talked a lot about how we're going to grow our mono-branded doors there, for example and we laid out a plan at Investor Day to get from about 1,100 doors to about 2,600 or so in that timeframe. A lot of that is going to happen in Asia. What we want to make sure is that we'll build them in the right places with the right size so that we can actually continue to scale the business in the right way.

We believe actually that we have an advantage in that region right now, because we're smaller. We should be smart enough to use that smaller footprint currently to really build into a larger footprint in the smartest possible way, so, and we think we're doing that. And we're also tiering the model in Asia and APAC and China as we're now moving into this global operating model to ensure we can actually do that, that we can scale with profitability.

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

A

And, I think, Randy, just thinking about profitability in general for the regions, I know you asked a little bit about APAC and about Latin America et cetera. APAC, again, we expected a little bit of contraction in 2018 as we continued to invest in future scale there in a brand-protective way. 2019, we do expect a little bit of continued contraction as we work to kind of manage through the marketplace and make sure we're really investing for the future there from a marketing perspective and also building out that new regional headquarters in Hong Kong that we spoke about recently. So, there's a talent and infrastructure perspective there that's going in for APAC to really set us up for 2020 and beyond for really scalable more profitable growth.

In Latin America, we did mention the business model change which will definitely help the profitability rate and the contribution margin rate of Latin America going forward. And also we've been working through making sure the cost structure is at the right level for Latin America as well. So all of that work is coming into play and we're looking forward to what that means for 2020 and beyond.

Randal J. Konik
Analyst, Jefferies LLC

Q

And just any color on Europe profits, what happened in the quarter? And just lastly on Connected Fitness, it turned profitable for the year. Is that something that can start to scale more? I'm just curious. I'm not sure how those margins kind of ramped there or not in that business? Thanks.

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

A

Yes. I mean as far as EMEA, we're continuing to see steady improvements in EMEA. We're definitely continuing to improve our relationships with the customers there. We're starting to open some brand house doors. So there's a little bit of timing in the profitability through the quarters. But relative to full year and as we move forward into 2019 as well, we're continuing to see steady improvement there which is great as we continue to build out those relationships, invest a little bit more in DTC, but have a pretty solid cost structure going forward.

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

A

And let me just touch on Connected Fitness. I'm glad that you asked about it. You know going back to the first acquisition we had, the goal that we've always had with this was to improve the experience for our consumer meaning – and ultimately to help us sell more shirts and shoes. That is our core business and what we do. But we think with the world's largest digital health and fitness communities obviously puts us in a terrific position to truly understand and get deep with knowing who our consumers is.

But, yeah, the results are something from where we were and saw a bit of a drag for the last couple of years is to actually turning that into profitability. You know hats-off to Paul who is leading that with [ph] Michael and Jim (48:59) and really a full team that makes Connected Fitness from being a place or a thing that's in the organization to really being a part of the business. So, really bringing that into the way that we're using and touching our direct-to-consumer business and digitally understanding our consumer. But also articulating it with product, I mean that's what we do. When we say the purpose of this business is to help us sell shirts and shoes. We're going to have a lot of HOVR in the marketplace, millions of pairs of HOVR in the marketplace, that will be a Connected experience and will actually be providing gait coaching, and machine learning algorithms to really improve and help the consumer get better which is our mission overall. So I think what you're finding and what you're seeing is we're still figuring out how to unlock the true power of what this size and scale of this network means for us. But it's going to be incredibly important for our future. So I think we're looking forward to what this will bring.

Randal J. Konik
Analyst, Jefferies LLC

Q

Thanks, guys.

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

A

Thank you.

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

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Great. Thanks. Good morning. My question is around the direct-to-consumer channel. I know it was flat in the quarter and the plan for 2019 is at mid-single. I'm curious if you can talk about some of the major drivers to build that up in 2019. And then relatedly you've been testing some kind of retail merchandising test within footwear and also accessories in some of your test market stores. Can you talk about how those have been performing thus far?

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

A

Yeah, Erinn, this is Dave. Relative to DTC, for the first quarter we do expect DTC to decline a little, primarily North America, as we comp the exits of some of those brand houses last year and continue to normalize the promotional levels to focus on the prudent profitable growth we've been talking to. But then for the year from an e-com perspective we're definitely focusing more on improved newness and more frequent drops, mobile site optimization, customization, personalization, so a lot of good investments in moving forward there.

And then when you think about just international DTC in total, we start to gain more momentum relative to expanding with more additional retail locations and also servicing of some of those additional country websites. So definitely a lot of progress in international DTC in total as we move beyond Q1.

And then also within North America, again, we are anticipating what's the right traffic and conversion level with higher full price sales that we to continue to optimize the promotional cadence as we move forward. So, as we said at Investor Day, over the next five years DTC is going to become a larger mix of our business. We continue to invest there and believe in that from a retail and e-com perspective.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

And then any update on some of those merchandising tests? I know when we were together in Baltimore you guys talked about some of the footwear wall optimization, I think accessories, you've tried a few things, I'm curious on how those are doing and what the rollout plans are?

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

A

Hi Erinn. This is Patrik. Yeah, we are very excited about some of the trials that are currently going on, not just offline, but also online. And we clearly see the consumer responding. Again, it's kind of the same old thing, with the right product and the right message and the right style, right, and fit. And when we've done that in a few stores where we're trialing this across the world, we've been really successful. And that's why we are still kind of very bullish about how we think about this going forward.

We told you guys at the Investor Day that our retail CAGR is going to be about 6% to 8% over the five years. Our e-com CAGR is going to be 12% to 14%. We're going to build – we're going to go from 1,100 doors to 2,600 doors around the world in that timeframe. And that's how we see it. And we're doing that with definitely an elevated merchandise and consumer experience in our stores. And 2019, again, will be a year where we continue to test a lot of this stuff out.

We're doing a lot more consumer insights in our stores around the world. And we're doing that globally now. That will accelerate in 2019. And we believe we're going to learn a lot from that, and we're going to be implementing that in our new store formats that will start to rollout towards the end of the year.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Great. Thank you. And then just on the women's business, how did it perform in the fourth quarter? And how are you planning the women's business in 2019? Thank you so much.

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

A

Erinn, this is Dave. We are proud of where we're going with the women's business, but we don't normally discuss or break out the women's versus men's. But it is performing to plan, so no real surprises there.

Erinn E. Murphy
Analyst, Piper Jaffray & Co.

Q

Great. Thank you, guys.

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

A

Thank you.

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

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey, guys, good morning. Thanks for taking our questions here. Two questions. First, Dave, did I hear you say that you think sales into the off-price channel will be higher in the first quarter again? I know you're starting to lap bigger amounts of disposition in the year-ago period, so I wanted to hear a little more and I'm actually trying to reconcile that with the conversation from the Analyst Day where you expected inventory down mid-singles. But here we are, down much more than that at down 12% in the quarter. And then I had a follow-up.

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

A

Yeah. I mean we are continuing to kind of close out the more aggressive inventory management efforts in Q1. So we will have higher consolidated off-price channel sales in Q1. And then we'll see it normalize a lot more as we go further through the year and become more of a gross margin tailwind for us on the full year. But it's a little bit of a headwind in Q1 as we saw some more opportunities to deal with a little bit of the remaining inventory really run as clean as possible beyond 3/31. It's a little bit more on the international front. We did a lot more North America cleanup in 2018 and there's a little bit of trailing cleanup in the international markets that we're taking care of in Q1.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. That's helpful. And separately I guess Kevin or Patrik, I'm trying to think a little bit about what gives you guys the confidence on revenues accelerating from flat in the first quarter through the balance of the year. And I guess, in the bigger picture, you're one more quarter into the transformation plan. You've got a better product pipeline that you showed us this year versus last year. Inventory is a lot cleaner.

Are you seeing the wholesale partners respond? I think Kevin when we talked about this on the third quarter call you noted that these things take some time and there's a bit of a lag when these transformations happen as you need to rebuild some trust from the wholesale channel, those kind of things.

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

A

Yeah. Hi Michael I think – this is Patrik. The reality of the business here in North America especially is predominantly a wholesale business. So when you've lost space on the shelf you got to earn it back. And it takes a little bit of time and that's really what you're seeing.

And we talked about this at Investor Day two things, right? One is, trust is kind of earned. So you got to earn it back. You got to fight your way back onto the shelf. And secondly, you're comping pretty high off-price sales that you want to replace with full-price sales.

What makes us confident is the fact that we're now into our second year of HOVR and as I said we just launched that two weeks ago. We have an incredibly elaborate way to do that and it's working for us. It gives us confidence. And it's working for us in our own channel and also in our key customer channels.

And that's again an allocated kind of scarcity model. We want to continue to drive that. So we're making the prudent decisions around product and when we do and it has the right SPF formula, it works for us.

Secondly, we're really excited about the apparel launches we have this year which we didn't necessarily have last year to the same extent with Russian Recover where we're now starting to expand into that more of that comprehensive 24/7 approach to our target consumer inside of the performance space.

And we know that we're going to do that with much more effective marketing. So it is a slow build. We're aware of that but nothing has really changed since Investor Day 60 days ago. And it will continue to build and really we believe that once we get into the 17-month calendar next year, we're going to have more of an acceleration. But it's really exactly what we laid out at Investor Day. We still feel about – feel as confident as we were then that the play that we're playing is the right play for the brand. And Kevin maybe you want to add a little bit to that?

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

A

Yeah, Michael, I think I gave a little bit of this color before just about what's been happening, but great brands endure. And as we're sitting through this Protect This House chapter, I'm looking at the team of the transformation that's happening across structure, process, strategic and cultural and incredibly proud of the things and the steps that the teams have been doing and getting to go-to-market place and really just having a structure that we can build and make something repeatable. But all the while we're leaning forward and growing.

We'll grow a couple hundred million dollars this year and that's no small feat. The one thing we know that in order for us to think about how growth is something that is a part of us because we've always defined ourselves as a growth company is that every product does something.

The thing that makes it Under Armour's DNA is not just the fact there's a logo on it that we can sell some units, but it causes a question to say well, is that Under Armour and it doesn't have to be a big blazing logo to define it. But when they realize that it is, the next question has to naturally be, well what does it do.

That's what makes us and gives us our DNA and gives us our reason for being that differentiates us from any other brand. So when we think about that positioning, that premium performance positioning, it's something that we of course are going to deliver in a stylistic way to just make the consumer say, I'm inspired, I'm delighted and this is a brand that is going to help make me better. So I don't want to give you too much sort of marketing flimflam with that because I want you to know that it's very real, that our product has real technology, real innovation that's built in everything we do.

So as long as we stay true to that DNA, the consumer knows that that product proposition, that product – the value proposition is something which is really second to none and exclusive pretty much to this brand.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Q

Thanks a lot for the thoughts guys.

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

A

Thank you.

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

A

Thanks, Mike.

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

A

Thanks.

Operator: Thank you. And our final question will come from Bob Drbul with Guggenheim Securities. Your line is open.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Hi. Just a couple of quick ones for me. First, can you talk a little bit about the basketball category and sort of how that's trending for you? Second one is, with some of the off-price selling that you're still doing, can you just discuss how you decide to move it through the Factory Houses versus the off-price channel? And then I have one final question at the end.

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

A

Sure, Bob. I'll start, Patrik here. We're very excited about our engagement in the basketball category overall. We're very excited about the Curry 6 that we just launched. It's doing great in the market. And we're excited about some of the launches that are coming up this year, not just with the Curry franchise, but also the Havoc and the Spawn and some of the other products that we have, and I'm sure Kevin you want to add some color on to that. But we're also excited about Joel Embiid. We're excited about the All-Star Game. And since I know this is a really favorite topic of Kevin, I'm going to hand it over to him to talk a little bit about that because we're very excited about that.

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

A

Well, let me expand on it and obviously, we built an incredible franchise with and through Curry, which has been explosive for us, but also building and making sure that it happens beyond that. We don't want to put all that weight just on Stephen's shoulders, although he's someone who can certainly handle it. But I'd rather have this go from what we're doing in basketball and what you see with the ability to have for the first time two starters in the NBA All-Star Game this weekend is a big deal. But we see the ability to continue to expand this.

I mean, what's happened in footwear for us as a whole, even moving beyond any one sport is the focus that we have with our team and our headquarters out in Portland. And I think the product that you're seeing come through, franchise is what we built with Curry, but I think it goes much further beyond that within Havoc, within Spawn. And then also as you go to other categories and let me move this through a couple of topics, but our cleated, which is Highlight, Spotlight Harper, in running it's HOVR, Phantom, Sonic, Infinite; in women it's Fortis and Breathe, in Sportstyle, it's Forge, SRLo, it's Project Rock. What I'm getting to is that you're not going to find us trying to reinvent the wheel every year and we've done that for a long time. We're in our 12th year making footwear.

And I think we've been too quick to move from one idea to the next idea. Building franchise is going to be critical for us. And really I think the Curry business is what has taught us that as a business of how we can get into a product line, we can get into a category and we can just keep enhancing it season-after-season, year-after-year and I think that's what you're beginning to see from us. Narrow and deep and so that's what we want to be. We want to be performance on core authentic basketball, we want to win there. We believe that that's going to – what's going to lead to the kit and when I take a pair of shoes from the court and put them on when they're walking on the way home too.

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

A

And Bob, this is Dave. Just on your question relative to off-price and Factory House versus the off-price channel, generally speaking we feel better about controlling the movement of our excess through our outlet doors, but we also know that we need to have a certain mix of MFO product there to really make the shopping experience for the consumers a strong one. So we do leverage the third-party off-price channel to take care of that excess outside of what we can do in the mix in our outlet stores, and we'll continue to work on trying to decrease that as a percentage of our revenue going forward and that's what we talked a lot about at Investor Day.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Got it. And if I could just have one more quick question is, is Lance still sporting the beard or is he taking it off?

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

Still got it.

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

Still got it.

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

Still got it.

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Game day beard, maybe shave it tonight.

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

Game day.

Robert Drbul
Analyst, Guggenheim Securities LLC
Q

Thanks very much.

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

Bob, thanks very much. We appreciate everybody. Operator?

Operator: This concludes today's question-and-answer session, as well as today's call. Thank you for your participation and you may now disconnect. Everyone have a great day.