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# Under Armour, Inc. (UA)

Q3 2015 Earnings Call

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*Chairman & Chief Executive Officer*

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Good day, ladies and gentlemen, and welcome to the Under Armour Inc. Third 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, today's conference call is being recorded.

I would now like to turn the conference over to Mr. Tom Shaw, Director of Investor Relations. Please go ahead, sir.

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Thomas D. Shaw  
*Director-Investor Relations*

Great. Thanks and good morning to everyone joining us for today's third quarter conference call. During the course of this call, we'll be making projections or other forward-looking statements regarding future events or the future financial performance of the company. We wish to caution that such statements are subject to risks and uncertainties that could cause actual events or results to differ materially. These risks and uncertainties are described in our press release and in the Risk Factors section of our filings with the SEC. The company assumes no obligation to update forward-looking statements to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

In addition, as required by Regulation G, we need to make sure you are aware that during the call we will reference certain non-GAAP financial information, specifically currency-neutral net revenue growth. We provide a reconciliation of this non-GAAP financial information in our earnings release, a copy of which is available on our website at [uabiz.com](http://uabiz.com).

Joining us on today's call will be Kevin Plank, Chairman and CEO; followed by Brad Dickerson, our Chief Operating Officer and CFO, who will discuss the company's financial performance for the third quarter, provide an update to our 2015 outlook and introduce our preliminary 2016 outlook. After the prepared remarks, Kevin and Brad will be available for a Q&A session that will end at approximately 9:30 a.m. Finally, a replay of this teleconference will be available at our website at approximately 11:00 a.m. Eastern Time today.

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

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## Kevin A. Plank

*Chairman & Chief Executive Officer*

Thank you, Tom, and good morning, everyone. In three weeks, Under Armour will be celebrating our 10-year anniversary as a public company. Back in 2005, we were a \$281 million company. Compression apparel made up two-thirds of our business, the phrase "Connected Fitness" had not yet been coined, the day when we would feature a ballerina in a commercial seemed unlikely, and Jordan Spieth had only just begun his journey to greatness by taking golf lessons at Brook Hollow Golf Club in Dallas at the tender age of 12, from pro Cameron McCormick.

What I knew back then and still believe today is that anything is possible because of the ever-evolving power of sports. In just the last few months, I've seen firsthand the value to advertisers who understand that sports is the only thing left that viewers insist on watching live. Like the emotion of 80,000 fans filling Twickenham Stadium, including Prince William, Duke of Cambridge, and His Royal Highness, Prince Harry of Wales, on a fall Saturday in London to watch England take on Wales in the Rugby World Cup while 4,000 miles away another 80,000 were watching Notre Dame football in South Bend. More than 10,000 fans lining up in Manila to get a glimpse of the NBA's most-valuable player, Stephen Curry. The power of sports and its ability to transcend generations, technologies, and trends is what makes other industries envious of the business that we are in.

The power of sports is the engine that has fueled our growth from day one, and the reason for our confidence in the future. It is the foundation behind our doing business in just four countries in 2005, to now more than 60 countries today. Growing our retail footprint from a single UA website and four domestic Factory House outlet stores in 2005 to now 24 global e-commerce sites and more than 300 UA-owned retail destinations and partner doors around the world; building our team from around 600 employees in 2005 to more than 11,000 today; going from not producing a single shoe in 2005 to approximately 30 million pairs in 2015, recording 22 consecutive quarters of 20-plus percent revenue growth and 24 straight quarters of 20-plus percent revenue growth in our largest category, apparel; achieving our first \$1 billion revenue quarter. Saying confidently, we're going to double our revenues to \$7.5 billion by 2018 and our stock price appreciating more than 2800% from our IPO price compared to roughly 60% for the S&P 500.

It has been a great 10 years of public company and we learned a lot during this time. But our focus remains the same and that is unlocking the equity we have created to continue to build the world's most important sports and fitness brand. To do that we will continue to invest and we will do so in the prudent way that has driven our results over these past 10 years. At our Investor Day here in Baltimore last month, we spoke to the diversity of these investments. We are focused on three key areas where we are confident the return on our investment will be increasingly evident as our business continues to grow globally.

The first area is our core business including sports marketing assets, brand marketing, supply chain and investing in inventory to help us meet the unparalleled demand for the Under Armour brand. The second area is our growth drivers like International where we grew the business 69% year-to-date and Footwear where we posted a third quarter growth rate of 61% and continue to invest in world-class talents. And finally, are the new opportunities

like local manufacturing, Sportswear and Connected Fitness that may not meaningfully impact our top line results in the short term but will bring a new dimension to our model and create new competencies within our organization in the years to come.

Starting with our core business, we continue to find assets that are a fit with our brand. The most recent example being two weeks ago, we announced a new long-term partnership with the University of Wisconsin. It takes one trip to Madison, Wisconsin, on a football Saturday to understand the value of college assets in the marketing landscape where more than 80,000 people show up to cheer on the team wearing our brand where one's loyalty is literally worn on their sleeve.

Take for example two historic rivals finding common ground through their outfitter and donning the same base layer t-shirt for a football game as our two partners, Notre Dame and the United States Naval Academy, did just two weeks ago in the name of respect for one another. We are not just clothing athletes, we are telling stories. We are tapping into the emotion that is tied to the power of sport and we are giving them an authentic way to display their passion.

We also talked at our Investor Day about our ongoing work with SAP. Division here is a single user database that combines the traditional consumer purchasing habit information with Under Armour's additional insights gained through our Connected Fitness platform. This work can be categorized into two main areas: architecting the future to create a business platform that will scale our organization and sustain our global growth and developing the consumer insight engine that will use data to drive this business to \$7.5 billion and beyond. Our increased insights into the consumer will empower us with better information to make better business decisions, to build better products while helping athletes make better choices in their own personal health and fitness, and ultimately, enriching their lives.

The second big area of investment is in our growth drivers. They are the same five that we've talked about since our IPO: Men's Apparel, Women's Apparel, Footwear, International and Direct-to-Consumer. And our strategy, which also remains the same today, is simply to make Women's larger than Men's, to make Footwear larger than Apparel as a whole, then sell that product country-by-country around the globe. And where we don't find appropriate retail distribution, augment that with our own Direct-to-Consumer e-commerce and retail channels. And the one thing we will never forget to do and is written on the whiteboards in my office is don't forget to sell shirts and shoes.

So let's start talking about Footwear. The momentum that you see and read about around our Footwear business is a result of the investments we've made starting back even before our IPO. But as we often say around here, we are just getting started. To give some perspective, we will produce 30 million pairs of shoes this year, compared to our competition that produces around a half-a-billion pairs each year. This demonstrates the miles of runway in front of us for growth in this one category alone.

We already have seen a return on our investments in Footwear through the 90%-plus sell-throughs for the Curry Signature Footwear line. We are incredibly excited for the Curry Two, which comes globally available at retail this Saturday and was first unveiled by Stephen Curry during the road show tour of Asia last month. To support this launch, Stephen and Jamie Foxx have teamed up once again in a new digital campaign titled Flash, which was created by award-winning agency Droga5 and is available now for viewing across all our social platforms.

Additional returns have come from the SpeedForm platform, more than tripling in revenue year-to-date. Our Highlight Football Cleats earning the number one spot in the marketplace for the third straight year. And new breakthrough innovations like the Fat Tire shoe, which launched in May and continues to disrupt the market and earn high praise, including Gear of the Show at the 2015 Winter Outdoor Retailer Trade Show.

Looking ahead to 2016, we plan to leverage our relationship with Jordan Spieth, the recently crowned PGA Tour Player of the Year, by introducing our golf Footwear brand, much like we did with our basketball Footwear brand through NBA MVP Stephen Curry. You also will see a much deeper, concerted effort to put resources into Women's Footwear as we have brought in a depth of talent to help support this growing area of our business.

As I said earlier, the third area of investment for us, to unlock the power of sports in new parts of our business, like Local Manufacturing, Sportswear and Connected Fitness. We unveiled our plans for Project Glory, our local-for-local manufacturing, at Investor Day. But let me refresh you on how this investment will change the game for us and for the world. State-of-the-art footwear and apparel manufacturing facilities haven't modernized like other industries. With end-to-end upwards of 150 people being needed to build a single product, like a shoe, we know there's a better way. And through our SpeedForm Footwear platform and the innovative manufacturing approach that we took there, we have been able to reduce the number of human touches up to 30%, and we believe there is plenty of runway left. So we see an opportunity to innovate the process, increasing our speed to market by introducing local-for-local manufacturing that will produce better product globally, product as great as our brand, in the most efficient way possible.

In 2016, we'll open our physical space for Project Glory, which we will call our Lighthouse. The Lighthouse will be an advanced manufacturing innovation hub located right here in Baltimore. It will commercialize new enabling technologies and processes that will first be integrated into our existing supply chain by our current partners before ultimately being rolled out by those same partners in new facilities around the world, changing the dynamics of speed to market, pricing, costing and labor. Made in the U.S. for the U.S. market, made in Brazil for the Brazilian market, and so on. Being an innovative company means not only bringing innovation into everything we make but also into how we create better product more efficiently.

Also at Investor Day, we revealed our plans for a new category for Under Armour, Sportswear. We will answer the call from our consumer for product that can be worn outside of the gym, court, pitch or field, delivering the same promise of functionality in form, fit and performance that they have come to expect from Under Armour. This category expands our vision of empowering all athletes on and off the sporting field. Our gateway to an engaged consumer, which will allow us to enter into new categories such as Sportswear, is Connected Fitness.

As we move from changing the way athletes dress to changing the way they live, we are becoming part of the athlete's life 24/7. From sleep and activity to fitness and nutrition, we are directly interacting with our consumer, turning their data into a call to action in support of our mission to make all athletes better. This type of insight we have come to rely on in other areas of our lives, such as our personal finances or the performances of our cars, is now finally available for our own health. I look forward to sharing with you more on how we will leverage this opportunity with some very exciting announcements to come at CES in early January 2016.

We believe Connected Fitness will enrich the lives of our consumer and we also believe it will help inform us to make better decisions on behalf of our consumer. The information derived from our Connected Fitness platform delivers deep algorithmic capabilities that create a highly interactive relationship with our consumers, making it possible to engage with them in a more personal and relevant way as individuals.

World-renowned advisor and best-selling author Ram Charan believes companies with these mathematical capabilities for personalization, companies he calls math houses, possess a huge advantage over companies that don't have these capabilities, even if they have been highly successful in the past. Companies that will experience difficulty keeping up with a math house are referred to as a legacy company. A legacy company still lives in the era of mass production and mass markets with a customer experience and delivered second- or third-hand. A math house uses data to shorten the distance between a brand and the consumer.

Today the information we gain through the more than 150 million Connected Fitness registered users, including now, updated from Investor Day, 6.5 billion foods logged and over 1.5 billion workouts logged just year-to-date across our four platforms, combined with the global point of sale, e-commerce and transactional data from our partners has firmly secured our status as the math house of the health, fitness and nutrition industry.

And we believe, as Ram has said, any organization that is not a math house now or is unable to become one soon is already a legacy company. The hidden benefit in entering these new spaces like Connected Fitness and Sportswear are the organizational competencies that we gain as we build up these businesses. We are a team that adapts well, whether it's moving from U.S. to Global, Apparel to Footwear, Men's to Women's or Wholesale to Direct-To-Consumer.

The theme of my presentation at Investor Day was based around a piece of advice given to me by former Navy SEAL and Under Armour Director Admiral Eric Olson. His advice was simply that when the map differs from the terrain, I would always tell my soldiers to go with the terrain. Led by our world-class leadership team, we continue to demonstrate our deep expertise in going with the terrain, to evolve with the upwards and downwards trends we will inevitably see through any business cycle.

Our 10 years now of both 30% top-line and equally 30% bottom-line growth established since our IPO and our healthy, strong Shirts and Shoes business gives us great confidence for the future, and our Connected Fitness math house, which will empower us to understand the consumer at a higher level to help shape our cultural approach to continue to innovate and tap into the power of sports for the next 10 years and beyond.

We are just getting started. Brad?

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## Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

Thanks, Kevin. I'd now like to spend some time reviewing our third quarter results followed by our updated outlook for 2015 and our preliminary thoughts on 2016. Our net revenues for the third quarter of 2015 increased 28% to \$1.2 billion. On a currency-neutral basis, net revenues increased 31% for the period.

Within our product categories we grew Apparel net revenues 23% to \$866 million compared to \$705 million in the prior-year's quarter. From a product perspective, our new Armour baselayer and expanded innovation platforms like Storm and ColdGear Infrared were key stories during the third quarter while in sport categories we saw significant growth in Golf and Outdoor.

Third quarter Footwear net revenues increased 61% to \$196 million from \$122 million in the prior-year. Our strengthened Footwear remains broad-based including our largest categories of Running and Basketball and extending to some of our newer categories such as Hiking and Global Football. Key products included our latest addition to the SpeedForm platform with the SpeedForm Fortis running shoe as well as additional Curry One basketball styles ahead of the Curry Two launch this weekend.

Our Accessories net revenues during the third quarter increased 22% to \$104 million from \$85 million last year, primarily driven by strong consumer demand for our line of bags.

Our global Direct-To-Consumer net revenues increased 28% for the quarter representing approximately 26% of net revenues. We continue to be encouraged by the success we are seeing with our 2015 Brand House openings.

From a global standpoint we ended the third quarter with 173 owned stores including 144 Factory House stores and 29 Brand House stores.

In e-commerce we launched six new country websites during the quarter bringing our total to 24 global sites. We continue to utilize more targeted effective communication to our consumers and traffic remains strong benefiting from the remarkable 2015 success of our sports marketing assets. While very early in this evolution, we are also encouraged by some of our efforts to generate traffic to our e-commerce sites from our Connected Fitness community.

Looking at our regions, North America net revenues increased 25% to \$1.1 billion in the third quarter compared to \$848 million in the prior-year's quarter. On a currency-neutral basis, North America net revenues increased 26% based primarily on the drivers I just highlighted. International net revenues increased 52% to \$130 million in the third quarter and represented 11% of total net revenues. On a currency-neutral basis, international net revenues increased 68% for the period. In the EMEA region we remained focused on core markets with our largest two countries, the U.K. and Germany, contributing the strongest growth during the period. Our e-commerce strategy has also played a key role in broadening our reach and awareness in the region as we've launched nine new local sites year-to-date.

In Asia-Pacific, the growth of our own DTC combined with partner store expansion continues to drive our business. The recent Stephen Curry tour and opening of our largest international Brand House in Shanghai have helped drive strong demand for our brand. And in Latin America, we continue to see balanced growth throughout the region following our market entry into many of these countries during 2014.

Moving on to margins. Third-quarter gross margins contracted 80 basis points to 48.8%, compared to 49.6% in the prior-year's period. The following factors were the primary drivers during the quarter.

First, the continued strength of the U.S. dollar negatively impacted gross margins by approximately 90 basis points versus the prior year. Second, sales mix negatively impacted gross margin by approximately 50 basis points in the third quarter versus the prior year, primarily driven by the continued strong performance of our Footwear business.

Also, on our ongoing focus to better flow-of-practice service our business resulted in higher freight expenses, which negatively impacted gross margin by approximately 20 basis points in the quarter versus the prior year. Partially offsetting these margin pressures, we continue to see favorable product margins in both our North America and International businesses, which benefited gross margin by approximately 90 basis points in the third quarter.

Selling, general and administrative expenses as a percentage of net revenues deleveraged 60 basis points to 34.6% in the third quarter of 2015, from 34% in the prior year's period. SG&A details for the third quarter are as follows. Marketing costs increased to 10.7% of net revenues for the quarter, from 10.6% in the prior year period, reflecting higher marketing associated with our Connected Fitness business and our most recent global marketing campaigns for training and global football. Other SG&A costs increased to 23.9% of net revenues for the quarter, from 23.4% in the prior year, driven primarily by our Connected Fitness business and investments in our global Brand House strategy.

Operating income for the third quarter increased 17% to \$171 million compared with \$146 million in the prior year period. Interest and other expense for the third quarter increased to \$7 million compared with \$5 million in the prior year period, primarily reflecting increased interest expense associated with the financing of our Connected Fitness acquisitions.

Our third quarter tax rate of 38.8% was unfavorable to the 36.9% rate last year, primarily driven by non-deductible costs associated with our Connected Fitness acquisitions as well as increased losses in our newer Latin American businesses, partially driven by the strengthening of the U.S. dollar.

Our third quarter net income increased 13% to \$100 million, compared to \$89 million in the prior year period, while our diluted earnings per share increased to \$0.45 from \$0.41 in the prior year's period. On the balance sheet, total cash and cash equivalents for the quarter decreased 36% to \$159 million compared to \$249 million at September 30, 2014. Inventory for the quarter increased 36% to \$867 million compared to \$637 million at September 30, 2014. Total debt increased to \$905 million as compared to \$192 million at September 30, 2014, primarily reflecting the financing of our Connected Fitness acquisitions.

Looking at our cash flows, our investment and capital expenditures was \$71 million for the third quarter compared to \$26 million in the prior-year's period driven primarily by our investments in our global headquarters in Baltimore and our global retail strategy.

Now moving on to our updated 2015 guidance. Based on current visibility, we expect 2015 net revenues of approximately \$3.91 billion representing growth of 27% and 2015 operating income of approximately \$408 million representing growth of 15%. As we have highlighted in our last earnings call in July and during our recent Investor Day, we believe the decisions we make on where, when and how much we invest are a key driver of our success to date and it is our job to deliver both near and long-term value while simultaneously investing in our growth.

In a year we have seen unprecedented success from our athletes on a global scale, we believe the investments we are making today will help fuel our growth for years to come. As Kevin mentioned earlier, we have abundant opportunities that we are investing in to drive our long-term top line growth. With so many areas that require investment we continue to be focused on driving operating income dollars and not necessarily operating margin.

This is why we have now raised our 2015 net revenues guidance by a cumulative \$150 million since January while at the same time maintaining the high end of our operating income target at \$408 million. We are committed to a certain level of investment back into our business and we will continue to be opportunistic, if and when possible, during the fourth quarter.

As a reminder, our operating income guidance continues to include a dilutive impact of the Connected Fitness acquisitions consisting of one-time transaction costs in the first quarter, operating losses from these business and noncash amortization charges of the intangible assets generated from the acquisitions. Below operating results we continue to expect the full year effective tax rate of approximately 41% compared to 39.2% in the prior-year primarily given the strengthening of the U.S. dollar which continues to negatively impact our international profitability.

Now I'd like to add some additional color on several items pertaining to the fourth quarter. Starting with revenues, we believe we are well positioned to execute heading into the holidays as our investments in service are paying off in fresher, cleaner assortments across our distribution. As we expand our innovation stories like ColdGear Infrared and Storm across our sports categories, we also believe we are more diversified in our solutions for the athlete. Supported by the launch of Curry Two basketball shoes, we expect Footwear growth will continue to outpace the growth rate for our overall business during the fourth quarter.

Now gross margin rate is now expected to decline approximately 100 basis points during the fourth quarter. Some of the same themes impacting our business the past few quarters will extend into the fourth quarter including

pressure from the continued strength of the U.S. dollar, higher freight costs and a higher mix of Footwear revenues. While higher than planned, the latter two factors are also key in our increased top line guidance for the year. In addition to these factors driven by the recent higher growth rates in our Footwear business, we are now planning higher excess Footwear liquidation sales as part of our normal inventory management process which will negatively impact gross margins in the fourth quarter. Partially offsetting these factors we anticipate that we will continue to see improvements in our product margins.

In SG&A, we expect a lower rate of spend for the fourth quarter due to the timing of marketing spend while other SG&A is expected to grow approximately in line with our net revenues growth as we continue with our planned investments in areas just for our long-term growth including Connected Fitness, International and Footwear. Also as I mentioned earlier, we will remain opportunistic in investing incremental dollars during the fourth quarter in the event of more favorable unplanned net revenues or gross margin rate.

Switching over to inventory. As we outlined at our Investor Day, over the next few quarters we are focused on delivering our products to our consumers more timely, specifically on key seasonal floor set dates. We anticipate this will result in elevated inventory growth rates over this period to flow product earlier.

Finally on capital expenditures, based on our current visibility we are now planning capital expenditures in the range of \$350 million to \$360 million for 2015 including approximately \$140 million allocated across three areas to support long-term growth with our new domestic distribution center, the expansion of our corporate headquarters in Baltimore and initial investments in our new and expanded SAP platform. In addition, we have accelerated investments in key areas to drive revenue growth including the rollout of our global retail strategy and new e-commerce sites.

Before we turn it over to Q&A, I would also like to provide you with our preliminary outlook for 2016. Based on our current visibility we are planning 2016 net revenues to grow at approximately 25% and 2016 operating income to grow at approximately 23%. Both of these measures are in line with our long-term growth targets we established at our Investor Day last month.

I'll provide further color on 2016 during our earnings call in January. With that let's turn it over to questions.  
Operator?

## QUESTION AND ANSWER SECTION

**Operator:** Thank you. [Operator Instructions] And our first question comes from Robby Ohmes, of Bank of America, Merrill Lynch. Your line is now open.

Robert F. Ohmes

*Bank of America Merrill Lynch*

Q

Good morning. Great quarter, guys.

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

Thanks, Robby.

Robert F. Ohmes

*Bank of America Merrill Lynch*

Q

Thanks. Kevin, actually, two questions. The first, can you talk a little bit more on the International side, specifically about China and was China a big contributor this quarter? And is it expected to be big this year? Or is it, maybe some help on the timing of when China could really ramp up as a market for you. And the second question, I know on your Investor Day and today again, you mentioned the Sportswear opportunity. Could you just give us a little more color on how Under Armour thinks about that huge opportunity in terms of partners and product categories? Or any insight you could give us.

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

Great. So first of all, internationally, we're really excited. We've crossed 11% of the total mix for the company, which is a big deal for us. It's been a long time coming. And becoming global is something you can't just say it, you actually have to act on it. I think it was really 2006 we launched our first office in Europe. 2010, we opened our first Brand House with a 1,000-square-foot store in Shanghai. And it has been a lot of learnings and a lot of adjustment. It's not as easy as just opening stores. But it's into the product, it's into the localized fits and the localized merchandising, it's into the execution, the distribution, the manufacturing. So there are a lot of pieces. And China is a great lesson for that.

I haven't given these numbers publicly but I think it's instructive of just sort of what our growth has been in China. So in 2012, for instance, I said we launched our first store at 1,000 square feet, and it was incredibly successful. We were doing over \$1 million out of 1,000 square feet out of one store in Shanghai. We didn't have the right leadership when we went in there and we sort of toiled around for the next couple of years. By the end of 2012, we were doing \$3 million in sales in China. We took somebody who was one of our – I introduced you to a guy named Kevin Eskridge, who is now running Global Merchandising for us. But I pulled him out of our Outdoor group and sent him and his family to Shanghai. And the results that we had were the business went from \$3 million in 2012 to \$7 million in 2013 to roughly \$30 million in 2014. The current plan this year is just over \$75 million for 2015. And as we look forward to 2016, that number's north of \$150 million today.

So we're incredibly bullish that the hockey stick approach has really begun to lay in for us, and we're excited about what that's going to mean. In China, though, one thing we did I think as a nod to the market was the visit that I did with the Stephen Curry tour of five cities in five days. We actually launched the shoe that we're launching this

Saturday globally, we launched it exclusively in China back at that tour. So China, it's very important to make sure that you show and demonstrate great respect I think for the market and hopefully it's just another sign of the things we're doing there.

In addition to opening our largest international Brand House store, 15,000 square feet on Weihai Lu Road in one of the great shopping districts in downtown Shanghai. So we see great growth coming from there and it speaks to some of – one of the numbers that I mentioned was we'll have more than 300 stores globally. And I think it's close to 100 stores or so will be opening this year, roughly three-quarters of those stores are actually going to be in China.

So we see great opportunity there, it's going to be our second largest controlled market and growing exponentially. The 30 stores that we opened in the third quarter, including 18 in September alone, including the Weihai Lu Road, and then e-commerce revenues in the third quarter nearly equaled the total number of 2014 business that we had in China, so a lot of big things and exciting things happening for us there.

Let me jump on sports categories for you for a second because I think it's important and it's a good barometer I think on how our business is moving. As we outlined at Investor Day, we expect to move to nine specific sport categories: Men's Training, Women's Training, Studio, Running, Outdoor, Golf, Basketball, Team Sports, Global Football and Sportswear.

Sportswear is one of those quiet discussions that we have and we outlined at Investor Day the size and importance that Sportswear represents for our current competitors. So collectively our competition has roughly \$50 billion in revenues, 25% of which they claim publicly derives specifically from Sportswear. That's basically a \$12.5 billion opportunity as we look at it. Today we're competing with effectively zero.

We feel like we've got the right leader in someone who came from this industry, worked for one of our chief competitors and responsible for helping to build out their Sportswear category in [ph] Ben Pruse (34:15). And Ben is someone who is a process; I want to set people's expectations on Sportswear at the same time. We issued \$7.5 billion as our Investor Day goal for 2018. Sportswear isn't heavily considered in that, it's going to take time, it's going to take build.

And I think that understanding what we're going to need to do from an investment standpoint, which is why I think we've been so specific as Brad and I have been really hammering down the fact that while we expect to – we can really grow and amp up our top-line revenue, we want to be prudent with what we're doing on the bottom line. But this growth, this 25% CAGR that we've committed to, it will come at a price and that price is continuing investment. And I think it's measured investment at the same time and our 10-year track record of I think making appropriate and the right investments is something that gives us great confidence that these are categories that are going to pay dividends for investors in the future but it's the right thing for us to do at the time and it's certainly our moment in time to make that happen.

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**Robert F. Ohmes**  
*Bank of America Merrill Lynch*

Sounds great. Thanks, Kevin.

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**Kevin A. Plank**  
*Chairman & Chief Executive Officer*

Thanks very much, Robby.

**Operator:** Thank you. And our next question comes from Camilo Lyon of Canaccord Genuity. Your line is now open.

Camilo R. Lyon

*Canaccord Genuity, Inc.*

Q

Thanks. Great job on the quarter, guys. Brad, I was hoping you could give a little bit more detail on the inventory composition. I think you mentioned a couple things, so a little bit more Footwear inventory as well as a little bit more build to improve the service levels. Could you maybe quantify the mix between those two? And how we should think about the growth rate of Footwear relative to the increase of the inventory in Footwear?

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yeah. So I think you're hitting on a couple of things there. Yes. Definitely with Footwear growing at the rate it's growing, and obviously the ASPs in Footwear are much higher than Apparel. That's part of the driver behind inventory growth. But probably the bigger driver of what we're doing right now year-over-year, specifically in Q3 and as we look into Q4, is more engaged around just the flow of inventory.

So if you recall looking back a year ago or so, or maybe even a little bit more than a year ago, we talked about some of the challenges that we had in flowing product on time for things like back to school and holiday and we really got focused this year as we came into 2015 on making sure, to some degree at all costs almost, that we were going to flow product on time. And we called out freight costs, specifically air freight, as an impact to our gross margins this year to do that. So that's probably the bigger driver of what you're seeing in inventory growth rate is we're really focused on hitting key floor set dates. So when you look at things like getting into the holidays of this year, making sure that product is flowing and ready to go is increasing our Q3 inventory levels.

When you look at starting to set the floors right at the beginning of next year in spring 2016, what you're going to see is earlier flow of product. And in the back half of this year, specifically as you get close to the end of this year. So as I talked about at Investor Day, when you can kind of look at year-over-year growth rates in inventory, that's the bigger driver of this is the flow of product. Obviously we grew a little bit higher than revenue here in Q3. And I think what you'll see is even a little bit more so in Q4 as we're really focused on getting product on to the floor on time for our spring floor sets. That should start to normalize a little bit as we work through 2016 because we start to get into a comparison of that focus we had in 2015 to flow product better, too. So as you start working through Q1 and Q2 of 2016, you should start to normalize that and get that more in line with revenue growth.

Camilo R. Lyon

*Canaccord Genuity, Inc.*

Q

Perfect. Very helpful. Thanks. And then, Kevin, there seemed to be an endless amount of growth opportunities that you're pursuing. How do you think about the needs around your organizational structure? Specifically, do you think you've invested enough on the talent side on your bench to make future transitions more seamless?

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

I'm really proud. We used that theme at Investor Day about the map and the terrain and I think we've demonstrated really great expertise in being able to adjust with the differing terrain. There's going to be many trends, we saw a lot of them in the last 10 years. We're anticipating probably something similar in the next decade or more importantly, anticipating what we haven't even thought about yet.

But I think investments are important. They're a great way to talk about our team. Our core pillars we talk about is product, story, service and team. And team obviously being the most important thing. There's a couple places that I think are illustrative of where we have, and frankly, where we need to be more aggressive. Our Women's business is a great example of that. Women's Footwear is something that as recent as a year ago, we had just a handful of people or less than that. Really people treating Women's Footwear as a part-time job. And it's, where if you compare that to others in our industry, there's not dozens, there's hundreds of people work on these teams.

And so the investments that we're making from a few different sides are really important. I speak about being opportunistic with our investment in general and there's a few places that we think that we need to invest.

First of all, our core business. Investing in areas like marketing, supply chain and technology. And again, along with this, Camilo is that it all comes down to team and people. But we do see that we are at this unique moment in time, and it's the right time for us because of the year we had with some of our assets and athletes, is things like what should we be doing from a marketing and our story-telling standpoint.

From a supply chain, about being a better customer and having the right team. Because right now, we're okay, but we're still not level loading our factories the way that we could with the volumes that we're driving, and being better with the best factories. And then when we're in the best factories, driving the A-teams in those factories and having the best people in the factories working on our business.

And technology is things like laying out the vision, as I mentioned earlier with SAP, about the single view of the consumer. Growth drivers for us, our existing growth drivers, I mentioned they're the same as they were, the five growth drivers are the same as they were at our IPO: Men's, Women's, Footwear, International and Direct-To-Consumer. I mean, Footwear and International are a place where I think we've done a great job. As you look at the growth we have in Footwear, we had a 61% growth quarter.

In International, we had a 69% growth quarter and 85% in constant currency basis. And they're things that we weren't getting a lot of credit for a few years ago when we told you we were spending money in these categories. But I think you're starting to see them really come to life.

We're also investing in talent and people, where again, I think making sure that a) there's a broad canvas, but the canvas isn't too wide either. We feel comfortable about the investments we're making because beyond our own growth drivers, there's the new areas for you, like Connected Fitness, Sportswear, which I just spoke about, and again doubling-down on some of the infrastructure we have. But Connected Fitness is one of those things that we're proud and I think we're bullish on the returns that we're beginning to see come back from it. And as we gave that bogey of \$200 million we put out there for 2018, the real upside in something like Connected Fitness is the collective dollars it will help grow across all of our existing growth drivers as well as the new ones that we're investing in and the dollars to come.

But I feel we've done a good job, I just believe that there is – we are in the process of hiring. I think on our website right now there's over 350 jobs or something to that effect that we're looking for. There's obviously there's a few key executive positions that we're looking to fill and as Brad and I have been working through the transition heading into February, we've gotten a great response for this position and we expect to have an A-player in someone that's been there, done that and really has seen what it's like as we look to cross the \$7.5 billion in billion dollar plus range.

So we're looking to bring experts and I think that's the unique thing about where we are today versus where we were even just a couple years ago. We have a great attraction. I think this company is custom fit for some real professionals that would be excited by growth.

Camilo R. Lyon

*Canaccord Genuity, Inc.*

Q

That's great. Thanks for the color. If I could sneak one more in, Brad, could you just remind us how – what your exposure to weather is in the fourth quarter and how we should be thinking about it relative to your guidance?

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yeah. Pretty consistent the last couple years. Weather has become less and less of an impact to us as our product has diversified around the fleece products and specifically as we start to set floors a little bit earlier for next year also around the holidays. So last couple years it has been – we've called out like a 1% to 2% growth rate potential in weather. I think every year it probably becomes less impactful to us because of the diversification of our product – and also in our regions too, from an international basis sell. Yeah. I mean there's a little bit of an impact there but it's not tremendously significant and obviously as we look at our guidance for the fourth quarter, we're not anticipating any dramatic change in weather year-over-year either way in our guidance.

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

And, Camilo let me jump on the end of that as well with Brad. Look it's the second warmest September I think on record that came out recently and I think there's a lot of conversation around it but we're incredibly proud to have the ability to still post a 28% growth rate in the quarter. And one thing we've focused on really is going back four or five years where we realized how weather dependent we were as a company with a pretty classic 60/40 split front half versus 40/60 split with front half versus back half of the year.

I think we've done a good job in preventing things like fifth quarter, not being so reliant on heavyweight fleece but focusing more on sort of stylish lightweight fleeces and we've really worked closely with our partners to create offerings that aren't just relying on big puffer jackets that are sitting in retail stores, that if it doesn't snow, aren't going to sell. So it's definitely – it's a work in process, but weatherproofing our business has been a real focus for our company and I think we're pretty proud of how we positioned versus maybe other people in our world.

Camilo R. Lyon

*Canaccord Genuity, Inc.*

Q

Perfect. All the best, guys.

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

Thank you.

**Operator:** Thank you. And our next question comes from Michael Binetti of UBS. Your line is now open.

Michael Binetti

*UBS Securities LLC*

Q

Hey, guys. Good morning. Congrats on a great quarter.

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

Thanks, Michael.

Michael Binetti

*UBS Securities LLC*

Q

Sure. And I apologize. I have a couple of near-term questions. I know you guys are gearing up to celebrate 10 years as a phenomenal public company, so I apologize for focusing on the near-term here a little bit. But could we just talk about the comments on the Footwear liquidation in the fourth quarter? I'm assuming that, that happens at the Factory Houses? And can we – maybe you could just help up think, is that – I know you pointed out as a gross margin drag, but as you work through some lower ASPs, will we hear about a little bit of a slower comp sales drag in the outlook as well as that happen?

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yeah. On the Footwear liquidation, it's really kind of a victim of our success to some degree. It's like we've had some tremendous growth rates in Footwear over the last few quarters, in the 40%s, 50%s and now 60%s, 61% this quarter. So this is just the normal process of managing inventory, that as you work through selling in and selling through, which both have been very positive for us in the Footwear side, you're ultimately always going to be left with some excess inventory in Footwear. We become in – over the course of the last few years and this year too, very focused on getting into the next season very clean on the Footwear side.

So in looking at the excess Footwear we had again, which is really just being generated from the tremendous growth and success we've had in Footwear in general, we really got focused on getting through some of the Footwear liquidation in Q4 and making sure that we were very clean getting into next year. So obviously if you talk about Footwear gross margins, just the regular gross margins of Footwear being well below our Apparel gross margins, that's also the case on the liquidation side, where your Footwear liquidation margins are going to be much less than your Apparel liquidation side.

As far as the avenues and vehicles to liquidate, Factory House obviously is one of them and we have talked about third party in the past. Also moving some of our excess inventory through a third party also. Although small in revenue volume, obviously it does impact gross margin.

Michael Binetti

*UBS Securities LLC*

Q

Got it. And then, Brad, I know it's one of the tougher metrics to kind of look out on, but the currency impact on gross margin is fairly large for your international mix. As I look at companies across the space that have much bigger international components to their overall business, is there – can you help us – that fourth quarter 100 basis points you talked to? Is there – can you help us like get dimensionalize that? What is causing that much pressure? And maybe is there anything you guys can look at down the road to help sales offset that a little bit more that you may not be doing at this point?

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yeah. So it's a good question. So when you look at the fourth quarter specifically, we anticipate a 100 basis point decline. FX will be a big part of that year-over-year decline. If you remember, we came into this year talking about FX impacting our margins by about 50 basis points, now we're up to about an 80 basis points full year impact. So obviously, the FX has worsened during the course of the year. So that's a big driver of it. Again, fourth quarter margins, air freight, as we really get focused on flowing inventory, that's a little bit of a driver too. And that kind of increased during the course of the year as we got kind of laser focused on better deliveries and better flow of product. Those are going to be the big, big drivers. We talked about the Footwear liquidation also being a driver in

Q4. We came into this year on the FX side probably less prepared than we're coming out of the year relative to how we hedge currencies going forward. So we've done a better job during the course of this year offsetting some of the increased pressures on FX.

We've built some better competencies in-house from a talent perspective, and some better strategies around hedging that will continue to increase going forward. So I would expect that in the future we're more prepared to offset some of those impacts that you're seeing right now. And obviously if you get into 2016, we're going to start to compare to 2015 FX rates. So you would imagine that there'd be a much more favorable comparison unless something drastically changes in the FX front.

Michael Binetti

*UBS Securities LLC*

Q

Okay. If I could just sneak in one last one on the fourth quarter, you guys have done a great job exceeding your plan on revenues for a long time. Compares in a couple of big growth drivers like international might get tougher in the fourth quarter. Specifically, as you look through your plan, your inventories look like you're ready to chase if you need to. If you do see an opportunity in the fourth quarter, where do you think we'll hear from you in the fourth quarter that there could be any upside to opportunity?

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yep. Michael, very consistent. Direct to Consumer. It's the area we can obviously impact the quickest. We control the whole value chain there. So our ability to react and turn product is the most quickest in DTC. So that's where you probably would expect upside the most. That doesn't mean you couldn't see it in wholesale also but we can obviously react much quicker on the DTC side.

Michael Binetti

*UBS Securities LLC*

Q

Okay. Thanks a lot, guys.

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yep.

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

Thanks, Michael.

**Operator:** Thank you and our next question comes from Matthew Boss of JPMorgan. Your line is now open.

Matthew Robert Boss

*JPMorgan Securities LLC*

Q

Hey guys. Congrats on a great quarter.

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

Thanks, Matt.

Matthew Robert Boss

*JPMorgan Securities LLC*

Q

So with the Footwear acceleration you're seeing still early innings but can you talk about any examples that you've seen so far of a more head-to-toe hookup for the brand? Meaning as it becomes a larger piece of the pie; do you think Footwear can drive incremental apparel and just ways that you can take advantage of this more?

Kevin A. Plank

*Chairman & Chief Executive Officer*

A

Yeah. I think classically is that people typically get dressed, it's foot to head, it's not head to toe. And it's one thing where I think we've probably been dragging a little bit. The Women's example that I gave earlier, that's something which was glaring and really obvious but look, we've got growth coming from a lot of places, so until you really turn attention and can focus on it, you're probably a bit vulnerable. So we've made I think six or seven hires just in the last 45 days on our Women's Footwear team, we're really looking to become robust and build that out. And there's places where we're definitely taking an ROI approach to it of where we can have the biggest impact.

But at the same time we don't want to apologize for Footwear, it's a relatively small number but – and we've also putting a 60% number up this quarter, committing to a 40% CAGR through 2018. We think there's great growth there and we're going to be the beneficiaries of that. But one thing I want to emphasize to people is that it is 10 years in making shoes for us but it absolutely takes time.

The first category we got into was American Football cleats and that was 2006 and it was a big breakthrough and we had high teens, low 20s% market share. And since that time we're now pushing close to a 40% market share in Football cleats with our sights set on being number one. And I say it only because it's the category we've been in the longest and if we're 10 years in Football cleats and five years in Running shoes, imagine what we're going to look like in Running shoes in another five years there.

I guess the thing to say is making a great shoe is not as – or be winning in Footwear is not about making one great shoe. There are so many factors that are combined and just like used Football cleats, when we were successful with the 20% market share we were basically making shoes for a particular type of athlete. And the speed guys and the guys on the edges of a team weren't the guys that were wearing our product and the reason we couldn't figure out is why won't they buy our Speed shoes, are our Speed shoes not good?

And the fact is is that's the kid where basketball is really important to him and he liked wearing the shoe on the football field that he wore on the basketball court. And until we launched a basketball shoe we couldn't even become relevant there and until we became relevant in basketball, he wasn't even going to consider us. And so it was about the aesthetic of the shoe but it's so many factors more than just do you make a good Speed cleat as to are you in basketball? Do you have an asset, like a Stephen Curry, that gives the credibility they'll want to wear the shoe?

And then beyond that it's when we go to being in the biggest factories, it's not only being in the biggest or the best factories but it's not having the B, C or D teams in the factories but getting to the point where you have the A teams in the factories. And you're not going to get to that point where I mentioned 30 million pairs of shoes versus half a billion to our competition until we have the ability to truly level load and give them the things that they need. And so as we sit here 10 years in and Football cleats in 2006, Baseball in 2007, Training shoes in 2008, Running shoes in 2009, Basketball shoes in 2010, then we stopped launching new categories. We're getting there, we're evolving, it just takes a little more time. So we absolutely believe in sort of the head-to-toe hooks that we're heading to. But I'll tell you at our bones we believe that we're as entitled as anyone else to be number one in Footwear.

And the challenge, this goes to what I spoke about local-for-local manufacturing. We talk about innovation in something like Footwear. I don't think our industry has been incredibly innovative at all. When you look and you compare the fact that 20 years ago the technology that can fit on my fingernail today or in my iPhone or Samsung device, it took a mainframe the size of a Greyhound bus just 20 years ago. And today it's absolutely evolved. In Footwear, we make shoes and we make apparel the exact same way we did 80 years ago. So I think finding innovation and finding ways to win is that there's not an individual shoe technology that makes someone innovative. So I think the approach that we have is holistic and it will pay absolute dividends. But we are challenging our team to think much bigger.

But a few I think highlights we have on the Footwear side is that obviously basketball is something with Steph, our basketball business up over in triple-digits. Bringing in our SpeedForm technology, what that's going to mean for us in basketball as well. Signing additional athletes, the number seven pick in this year's draft, Emmanuel Mudiay, who's one of the breakout young stars this year as well. So doubling down there. Women's, we covered that.

Our Running business, we've got a great product in SpeedForm, but we're also bringing six new Running models to market in 2016, including a product we have in the market right now called Fortis, which is our number-one selling shoe in our key sporting goods accounts at \$90-ish. And doing really well, as well as another new, our first all-knit upper offering in a product called Slingshot, which is doing really well.

But across the board. Outdoor, with the Fat Tire shoe I mentioned in my notes earlier. Football cleats, having the number one shoe in the market with the Highlight Cleat. Soccer, our new "Slay Your Next Giant" campaign and our asset, Memphis Depay, the striker for Manchester United, who's 22 years old and, again, another next big star. Jordan Spieth and launching golf Footwear. Our youth Footwear continues to be on fire as well.

So there's a lot of sort of individual stories I think that are drawing to the bigger narrative. And we haven't connected all the dots, I think, for the consumer yet. When I mean the consumer, I also mean our customers, where we can be a great Footwear brand when you walk into a store with an A-Z footwear experience. But I can tell you is that we know what that movie looks like, we've seen it before and we're bringing in pros who've seen it before as well. And it's just a matter of time for us to draw that. I want to emphasize, we think we can be the number-one brand in Footwear. And what our team is preparing for isn't what's the next shoe coming from one of our current competitors. What we're think about is what are we going to do if Apple or Samsung decide to make a shoe, how are we going to answer that?

So that's the type of I think leap-frog mentality and that moonshot thinking that we're challenging our team with. It's not, let's fight with where people are today; let's think about where they're going in the future and what we can do to be great.

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**Matthew Robert Boss**

*JPMorgan Securities LLC*

Q

Great. And then just a quick follow-up to switch gears. On Connected Fitness and the math house, can you just touch on the integration? Any learnings and really the opportunities to change the game as you think about next year and beyond.

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**Kevin A. Plank**

*Chairman & Chief Executive Officer*

A

Yeah. Since Investor Day is when I had that time, actually, with Ram, and he took us through the idea of math house, which I guess we knew it all along but it was a great way to articulate it. But if I could just take a second on

our Connected Fitness. Today more than 150 million athletes, continue to add over 100,000 athletes a day throughout 2015, downloading one of our four apps. The scale is extraordinary. At Investor Day we mentioned there were 6 billion foods logged at the time. Today, just a few weeks later, over 6.5 billion foods logged. Workouts, 1.3 billion is the number we gave you at Investor Day. Today it's more than 1.5 billion workouts. More than 200 million workouts have occurred just in the last few weeks.

So the information we're gaining every day we think is incredible and is going to continue to enable us to provide the consumer with really relevant information and insight to, we like to use the word, to enrich lives. We think the bigger opportunity, though, is much broader than the \$200 million target that we talked about. And ultimately it's going to help us sell more shirts and shoes.

The math house idea, though, the ability to use data and analytics to drive business, is something which is – I don't even think we've quantified yet. I use the example and I think it's a really good one, that Amazon, how they credit 40% of their revenue is what they call their recommendation engine, and that's basically is just based off of toothpaste. I know if I sold you a tube of toothpaste five weeks ago and toothpaste has a six-week lifecycle and I can ask if you want me to send you a new tube, not only do we know purchasing history but we can tie that to activity, to fitness, to sleep, to nutrition, and data information that our consumers are voluntarily giving to us. And we recognize that as they do that our job is becoming this destination, this daily dashboard of your health and fitness that we think we can become. And that's all built on trust.

And as I said many times is trust is one of those things that's built and drops and it can be lost in buckets. But we think that we have the credibility at this point, and we think with some of the suite of products and apps and devices that we have as we're contemplating looking forward and partners we're looking with those devices to move forward, we've got a large announcement we're looking forward to making at CES in January and we think it's an incredibly exciting space that is just partially contemplated as we look forward.

But the one thing that is clear: as excited as we are about our Connected Fitness and how it's going to enable us with this math house to be that much smarter about our overall business, ultimately what it's going to do is help us sell more shirts and shoes.

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Matthew Robert Boss

*JPMorgan Securities LLC*

Great. Best of luck.

Q

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Thomas D. Shaw

*Director-Investor Relations*

Operator, we have time for one more question.

A

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**Operator:** Thank you. And our last question will come from the line of Omar Saad of Evercore ISI. Your line is now open.

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Omar Saad

*Evercore ISI*

Thank you. Good morning, guys. I'll keep these quick. And the first question, one follow-up on the gross margin comments, Brad. I understand the headwinds, the FX, the mix shift et cetera, but you mentioned product margin as one of the benefits to the gross margin line, thinking 80 or 90 bps, something like that. Can you be a little bit more specific and expand upon what you mean by product margin driving one of the takes against the puts?

Q

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yeah. That's really probably more kind of on our core Apparel business. So just overall our core product margins, whether it be through pricing and/or costing just in general across the globe, North America, international, again most of our core Apparel product margins are improving. So that's helping offset some of the other pressures we talked about.

Omar Saad

*Evercore ISI*

Q

Is that more generating scale in the business on the cost side? Are you taking price strategically or is it a mix to more premium products? Maybe just expand a little bit more?

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yeah. It's a little bit across the board. So obviously some of the innovations that we've come out with over the last few years from a price point perspective helped our margins, getting more focused on kind of our higher volume products on the costing side of things. Obviously a scale is a big, big part of that so it's kind of all the above, Omar, to some degree. But again you would expect from a perspective of improving product margins that our Apparel business would be the place we'd see the most of that because it's our – obviously our longer business and existing business. So that's where we're seeing it right now.

Omar Saad

*Evercore ISI*

Q

Okay. That's helpful. And then one last one on DTC, if you kind of look at the store growth has been accelerating. You talked about it at Investor Day accelerating the store growth longer term being an important channel, I think it's over a quarter of the business now. The revenue slowed a little bit the last couple quarters which implies a slowdown in the same-store sales number for lack of a better term.

Can you help us understand? Are there any subtle things going on there we should be aware of? Any timing issues? Is it more on the e-commerce side where maybe it's falling a little bit? Or is the outlet channel as we've seen other companies with outlet exposure feel a little bit of a slowdown there. Just maybe a little bit more detail around what's going on in DTC and how we expect it to unfold in the coming quarters. Thanks.

Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Sure, Omar. And I think what you've seen from DTC is a little bit of if you go back to the first quarter it grew at 21% and it grew 33% in the second quarter and now 28% in the third quarter. So it's been up and down a little bit. A lot of that right now is going to be timing of new market entries on the e-commerce side globally, retail on the global side too, entry into certain markets and expansion of certain markets. Kevin talked a lot about China and the growth in China, the timing of some of that, obviously Brand House in the States too.

So if you look across the board, the e-commerce side of it has been the strongest of the growth drivers across all the quarters really. If you look back over the last four quarters, e-commerce has kind of led the way from a growth rate perspective. The retail, although, been strong has been below the e-com growth.

When you look at just in general on the retail side, you have to remember that still the majority of our revenues on retail are being generated by North America Factory House channel. So although we talk about Brand Houses,

both domestically and globally what's going on in retail, the large majority of our retail revenue still sits in that kind of North America Factory House. And we've talked about, over the course of the last six quarters, seven quarters, eight quarters, that planning the slowdown of that growth rate as we opened less doors going forward and focused on square footage growth, that we planned the growth rate of North America Factory House to decline as we got into 2015 and the future. So that's to some degree what you're seeing, is the impact of that North America Factory House growth rate which we planned to kind of come down. Still healthy, but planned down. That's kind of what you're seeing I think from the perspective of some of the growth rates in DTC.

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Omar Saad

*Evercore ISI*

Q

All right. That's really helpful. Thanks. Great job, guys.

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Bradley James Dickerson

*Chief Operating Officer & Chief Financial Officer*

A

Yep.

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Kevin A. Plank

*Chairman & Chief Executive Officer*

A

Thanks, Omar.

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Thomas D. Shaw

*Director-Investor Relations*

All right. Thanks, everyone, for joining us on the call today. We look forward to reporting to you our fourth quarter 2015 results which tentatively have been scheduled for Thursday, January 28, at 8:30 a.m. Eastern Time. Thanks again, and goodbye.

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**Operator:** Ladies and gentlemen, thank you for participating in today's conference. This does conclude the program and you may now disconnect. Have a great day, everyone.

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