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Under Armour, Inc. (UA)

Q2 2013 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, ladies and gentlemen, and welcome to the Under Armour, Incorporated Second 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 is being recorded.

I would now like to introduce your host for today's conference call, Mr. Tom Shaw. You may begin, sir.

Thomas D. Shaw
Director-Investor Relations, Under Armour, Inc.

Thanks, and good morning to everyone joining us on today's second 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 risk 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 Factor section of our filings with the SEC. The company assumes no obligation to update forward-looking statements to reflect events or circumstances after the day on which the statement is made or to reflect the occurrence of unanticipated events.

Joining us on today's call will be Kevin Plank, Chairman and CEO, followed by Brad Dickerson, our Chief Financial Officer, who will discuss the company's financial performance for the second quarter, followed by an update to our 2013 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 on our website at approximately 11:00 a.m. Eastern Time today.

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

Kevin A. Plank

Chairman, President & Chief Executive Officer, Under Armour, Inc.

Thanks, Tom, and good morning, everyone. Q2 marked the 15th consecutive quarter where Under Armour apparel grew at least 20%, and the 13th straight where total revenues grew at 20% plus. We look at these results, and three key themes jump out at us.

First, our long-term strategy for growth is clearly working. At our Investor Day here in Baltimore last month, we laid out our plan to once again double the size of our company, targeting $4 billion in revenues by 2016. Today's results reinforce how our brand continues to resonate with both our core and new consumers in both established and new channels of distribution in North America.

Second, these continued strong top-line results are great evidence that there is still significant runway for our brand in North America, not just in the areas where we see accelerated growth opportunities like Women's and Youth Apparel, but our core Men's Apparel business as well.

And third, the significant opportunity to grow our Apparel business in North America provide a great foundation for the investments we are undertaking to make Under Armour a truly international athletic brand, with Apparel and Footwear platforms being built to reach a global consumer.

These investments in our Footwear and global infrastructure will cost money, but we are confident that the return on them will enable us to continue leveraging our brand equity as we expand into new categories and geographies.

So let's start with our U.S. Apparel business, and the multiple ways we continue to resonate with our consumer here in the States. We continue to take share in multiple categories and genders through a combination of increased floor space and greater productivity from our existing retail partners, expanding our presence within our relatively new department store distribution, and that ultimate driver of retail traffic, building great product.

So, first on our wholesale partners. Our ability to resonate with our consumer combined with the strength of our long-standing relationships with our key sporting goods partners is the foundation of our U.S. business. This foundation is exceptionally strong as our wholesale partners continue to give our brand more space on their floors and invest along with us to bolster the presentation of UA at the point of purchase. A great example of this focus is our partnership with Dick's Sporting Goods, when in Q4 last year we had shop-in-shops at just over 20% of Dick's stores. By the fourth quarter of this year, that number will be well over 40% of their stores, representing more than 240 doors.

Our department store distribution, while still a small percentage of our wholesale business, is growing very quickly. While we're still very early in the growth curve, we are learning a lot about which assortments work best in this channel, with categories like Golf and Women's Running driving traffic. We're also outperforming in both Boys and Girls in department stores with polos and hoodies.

Our Brand House retail store in Baltimore continues to see great results, and we continue to learn valuable lessons on how localized product helps drive traffic. For example, in this past quarter, we had a large-scale test of our Golf product in our Baltimore Brand House. We saw very strong results that not only helped us plan our assortments in our next store opening this fall in Tysons Corner, but also inform our wholesale partners what they can expect from making larger investments in emerging categories and the Under Armour brand as a whole.

We're also growing our North American business, because the equity we have built with consumers on the playing field enables us to be a premium brand, not just with our most technical innovations, but in our core business as well. We look at our average selling price as a key metric of our ability to innovate, and in the second quarter, we saw strong increases in our ASPs across Apparel, Footwear and Accessories. That's a big deal.

On the product innovation front, we continue to bring newness and excitement to our core business. First and foremost, and certainly the most entertaining, is Alter Ego, our new partnership with Marvel Entertainment and DC Comics, which brings superheroes like Superman, Spiderman, Iron Man and The Batman onto the field through our compression apparel. With baseball in mid-season and football practices underway, this is the statement apparel for athletes on field in 2013, and we continue to have a tough time keeping it in stock.

We are resonating with the UA women's consumer, with our growth this quarter driven by strong sales of capris as well as our Studio line, the Armour Bra collection, and our redesigned tank tops. We're also resonating especially well in Youth, our fastest-growing apparel segment in Q2, with our big logo hoodies and tees driving growth at our sporting goods partners and establishing a strong foundation in department stores.

And the pipeline of innovation, which we shared in depth at Investor Day, is not letting up in the balance of 2013, either. We'll continue to resonate through technical innovation like ColdGear Infrared that was inspired by the Stealth Bomber and utilizes ceramic insulation to create the best thermal regulator in the industry. From long-sleeve t-shirts to our most technical snowboard jackets, the addition of this technology provides warmth without the weight and will be hitting shelves this quarter.

Our relentless flow of true innovation that works for all athletes is critical to our continued success. From a brand perspective, it's equally critical that we evolve our brand message as well. We started telling the UA innovation story with our first Brand Holiday earlier this year. The strategy behind these holidays is pretty simple: cluster our marketing and communications at specific times of the year across all our platforms and drive our consumers into retail.

The next evolution of our brand message hit earlier this month with the debut of 'Ready for August'. For our U.S. consumer, the story is about American football, our heritage, where we were founded as a company. For the consumers outside the U.S., we're creating a separate commercial where we will tell our training story through the lens of global football. Either way, the message will resonate as it speaks the universal language of getting ready for the season.

Much like our first Brand Holiday message around innovation, the message around training in this second campaign works for athletes of all ages globally. This brand position is one we believe we can own around the world, especially given the strength of our brand among younger consumers, because whether it's prepping for the start of high school football here in Baltimore, Arian Foster at the Texans training camp in Houston, the South Carolina Gamecocks football team in Columbia, or the first match of the English Premier League next month, athletes know that it's the work they do now that will make the difference at the end of the season.

And we'd also like to give a little shout-out to Ray Lewis, who is our Executive Producer on the spot. We did think about having Ray start today's call with a little pre-game motivational speech, but weren't sure you all would be ready for that, especially you on the West Coast where it's about 5:30 in the morning right now.

One way we continue to build on our connection with young consumers is with our focus on Next. We stay authentic by being connected to that next generation of stars, no matter what the sport. In golf, Jordan Spieth, our newest golfer to the Under Armour family, is making noise in the Tour, with five top-10 finishes on the PGA Tour so far this year and year-to-date earnings over $1 million, a little better than what most 19-year olds are pulling down for their summer jobs. He won the John Deere Classic two weeks ago, becoming the first teenager to win a PGA event in 82 years. That qualified him for the British Open, so he hopped a flight to Scotland and was four shots off the lead entering the weekend.

In baseball, we've definitely got Now, and we've got Next. We had 12 UA players in this year's All-Star Game, including Bryce Harper, who was in our first Brand Holiday spot, Buster Posey, Clayton Kershaw, and Manny Machado, among others. And we also had 27 of 61 players in the Futures Game, where the teams select the best players in the Minor League system to represent them. Given that Manny Machado played in the Futures Game last year and the Major League All-Star Game this year, we think it's a pretty good indicator that we've got a great group of athletes representing us on the baseball field for years to come.

That first Brand Holiday spot also introduced the U.S. to Canelo Alvarez, who was about to fight for the Junior Middleweight Championship of the World. Well, he won that fight, and on September 14, he's fighting Floyd Mayweather in Las Vegas. To give you some perspective on Canelo's popularity in Mexico, despite he's already broken the all-time gate record, with tickets selling out within 24 hours, already surpassing the take from the 2007 Mayweather/De La Hoya fight.

And last, but certainly not least, Sloane Stephens, the last American woman standing at Wimbledon, and ready to do some damage at the U.S. Open in Queens when it starts a month from now.

So, let me sum up where I think we're headed with our U.S. Apparel business. We believe that with our continued flow of great products, our ability to reach new consumers through expanded distribution, and by bringing new dimensions to our brand communications, that the runway for our U.S. Apparel business is long and that we're still in the early stages of where our brand can go within our largest and most established businesses.

So with that, on to Footwear. Given our success of the Highlight's franchise in baseball and football cleats, the solid performance of our Spine running platform and the outstanding early reception we've seen with our Speedform technology, I think it's safe to say that we've never been in a better position to gain share and become a meaningful player in the U.S. footwear market.

So let's start on the field with the Highlight. We've said that when we innovate, we win. And the Highlight cleat, which we introduced last year, is great evidence. In football, the Highlight cleat at $110 has been the number one football cleat at Eastbay, our partner with Foot Locker, for more than 12 straight weeks. It's also leading the way for us in baseball, selling through solidly at $110 and helping us take solid market share this season. Now in year two on our Spine running platform, we had a great launch in our key accounts with the Spine Venom shoe. We continue to have great support from our key retail partners and will increase the cadence of new products in the Spine platform through this fall and the spring of 2014.

The third product piece around what's happening in Under Armour Footwear is Speedform, our most compelling Footwear innovation story to date. Speedform elevates Under Armour Footwear to what consumers have come to expect from our apparel, innovation around fit. And we're bringing that innovation to the world of footwear by not making these shoes in traditional footwear factories. Instead, they're being made in a bra factory by partners who've built entire businesses around the concept of a perfect fit. New processes in non-traditional footwear construction allow us to streamline both the production and the amount of pieces in the shoe, better efficiency with more precision. This year, we're talking about small numbers. With focused distribution, we've already seen a strong reaction to this $120 shoe. Our goal is to be well set up to tell a great story about it in 2014 and start creating a legacy of Under Armour Footwear in Run, as we've done on the field with baseball and football.

I haven't left myself a lot of time to talk about our International business, but we fully understand that it's the biggest growth opportunity for the Under Armour brand. More importantly, we believe that much like we now stand with Footwear, we've put ourselves in position where our strategy is aligned to the size of that opportunity. That strategy for global growth is relatively simple: set priorities, grow where the opportunities are most evident, and invest in new markets to seed future growth. One critical part of that strategy is getting Under Armour on the ground as a local brand into key markets. Over the next year, we'll be opening 10 more offices, and by the end of this year, we'll have more offices outside the United States than here in the U.S. Earlier this month, we opened our new office in Manchester in the U.K., and we're opening new offices in Australia and Germany later this year.

The part of Under Armour's world undergoing the most change is Latin America. We believe there are great growth opportunities for our brand in the region, and we're taking steps to quickly capitalize on them. Our office in Panama, where our Head of International, Charlie Maurath, will be based, opened in May. We'll use that base for entry into key markets in the other parts of the Southern Hemisphere, including Brazil, where we will be launching the Under Armour brand in 2014. Our new team in Brazil brings more than 50 years of industry experience to the table. With both the 2014 World Cup and 2015 Olympics being held in the country, there will be a tremendous amount of the sport world's attention focused there the next few years.

In Mexico, our distributor will transition to a wholly-owned Under Armour subsidiary in the first quarter of 2014. Ahead of creating that new structure, we plan to open our first owned specialty retail store in Mexico City in September of this year. We will continue to build brand equity in the short term while ensuring we are investing for the long term. For example, as we bring Under Armour to the market in Chile, we are entering into a relationship with Colo-Colo, the most popular soccer club in the country. Our partnership with them will help us get immediate traction for our brand at retail. In markets like Chile and others around the world, we will keep Under Armour true to our core and connect with athletes through an authentic position around training that is distinct from our global competitors.

There's a great deal of excitement inside Under Armour around the international growth opportunities in front of us. And while there's a great flurry of activity going on in Latin America, we believe we are well positioned in Western Europe and China to make those very large markets in the global Under Armour story.

So, lots of activity happening for Under Armour outside the U.S. I've spent a lot of time recently seeing how our brand looks outside the U.S., and I keep coming back to Baltimore incredibly enthusiastic about what we could do in these new markets. When you look at Under Armour today, you see a North American company with more than 90% of our business here in the States, but when you look at how our brand has grown in places like Japan, where our partner, Dome, approached $200 million in wholesale revenues last year and plan to grow another 30% this year, and operate 24 dedicated Under Armour doors, I think you start to appreciate why we're moving quickly to capture some of the existing consumer demand for our brand, because the Under Armour brand does translate.

We said at our Investor Day that we see International accounting for 12% of our business by 2015, a doubling of the 6% that it currently represents. But much as we've said about our U.S. Apparel business, our U.S. Footwear business, our U.S. Accessory business, and the U.S. Retail business, we are just scratching the surface of what our brand can be internationally. When you watch the launch of our new Tottenham kit in London, or see Gareth Bale wearing it on a huge billboard towering over Times Square, or watch Hunter Mahan playing in the final pairing Sunday at the British Open, or Canelo Alvarez taking on Floyd Mayweather next month in Vegas, you begin to appreciate how we are just starting to make our way outside of North America.

We believe International will be our fastest-growing business in 2014. When you combine that with the runway for growth we see in our U.S. Apparel business and the strides we've made in Footwear, the possibilities for the Under Armour brand are abundant and we believe we've never been in a better position to execute against those opportunities.

And with that, I'll turn things over to our CFO, Brad Dickerson. Brad?

Brad Dickerson

Chief Financial Officer, Under Armour, Inc.

Thanks, Kevin. I'd now like to spend some time discussing our second quarter financial results, followed by our updated outlook for 2013. Our net revenues for the second quarter of 2013 increased 23% to $455 million. Apparel grew 23% to $310 million during the quarter from $253 million in the prior year, representing the 15th straight quarter of at least 20% growth for our largest product category.

Increased newness remains the key factor in our Apparel strength year to date, highlighted in the second quarter by our new HeatGear Sonic baselayer line as well as our expanded Storm and Charged Cotton platforms. Additional success in Women's was driven by our expanded Sports Bra assortment, new design in tanks, heightened color in capris. We are also seeing tremendous traction in Youth, both Boys and Girls, where we are seeing strong growth in both new and existing distribution led by graphic tees. Our Direct-To-Consumer net revenues increased 29% for the quarter, representing approximately 30% of net revenues compared to approximately 29% in the prior year period.

In our Retail business, we opened three new Factory House stores during the second quarter, increasing our domestic Factory House store base to 105, up 14% from 92 locations at the end of last year's second quarter. As we provided at last month's Investor Day, we expect to open approximately 13 total Factory House stores during 2013, closing the year with 114 domestic locations. On the specialty store side, we continue to test and learn at our first UA Brand House store in Baltimore, and remain on track to open our second location at Tysons Corner this November.

In e-commerce, we achieved another quarter of strong growth, highlighted by ongoing positive trends in average order value, which benefited from an improvement in our inventory positioning across the channel.

Second quarter Footwear net revenues increased 21% to $82 million from $67 million in the prior year, representing approximately 18% of net revenues. As Kevin mentioned, our football cleat business, led by our expanded Highlight offering, is off to a great start as we head into the heart of the buying season, and we continue to see traction in running, led by our expanded UA Spine platform.

Our Accessories net revenue during the second quarter increased 30% to $51 million from $39 million in the prior year period. We continue to see strong results across our headwear line and are well positioned for back-to-school with our recent bags re-launch.

International net revenues increased to 25% to $26 million in the second quarter and represented 6% of total net revenues, highlighted by strong growth of our Latin American and European businesses.

Moving on to margins, second quarter gross margins expanded 240 basis points to 48.3% compared with 45.9% in the prior year's quarter. Two primary factors drove this performance during the quarter. First, we continued to realize lower product input costs, primarily driven by North American Apparel and Accessories, which positively impacted gross margins by approximately 140 basis points.

Second, our sales mix was more favorable year-over-year, including a lower mix of excess products sold through our Factory House channel and a lower proportion of wholesale Footwear sales. These sectors helped contribute approximately 110 basis points to gross margin during the quarter.

Selling, general and administrative expenses as a percentage of net revenues leveraged 150 basis points to 41.2% in the second quarter of 2013 from 42.7% in the prior year's period. Details around the four SG&A buckets are as follows.

First, marketing costs decreased to 10.7% of net revenues for the quarter and 12.6% in the prior year period, primarily driven by the timing of our first global marketing campaign for 2013 which was more concentrated during the first quarter. Second, selling costs increased to 11.3% of net revenues for the quarter from 10.5% in the prior year period, primarily driven by the growth in our Direct-to-Consumer business. Third, price innovation and supply chain costs decreased to 10.2% of net revenues for the quarter from 10.7% in the prior year period, primarily driven by leveraging personnel costs during the period. And finally, corporate services increased slightly to 9% of net revenues for the quarter from 8.9% in the prior year period as we made incremental investments to support our international expansion efforts.

Operating income during the second quarter increased to $32 million compared with $12 million in the prior year period. Operating margin expanded 390 basis points during the quarter to 7.1%.

Our second quarter tax rate of 43% was unfavorable to the 38.9% rate in last year's period, primarily driven by the lapsing of a state tax credit last year.

In addition, reduced profitability overseas due to incremental investments in our international business and lower-than-planned contribution from our existing international businesses through primarily the currency headwinds adversely impacted our tax rate.

Our net income increased to $18 million compared with $7 million in the prior-year period. Second quarter diluted earnings per share increased to $0.16 compared to $0.06 last year.

Now, moving over to the balance sheet. Total cash and cash equivalents at quarter-end increased 57% to $224 million compared with $143 million at June 30, 2012.

Long-term debt, including current maturities, decreased to $55 million at quarter-end from $74 million at June 30, 2012.

Inventory at quarter-end increased 29% year-over-year to $491 million compared to $381 million at June 30, 2012.

Our investment in capital expenditures was approximately $22 million for the second quarter. We currently expect 2013 capital expenditures in the range of $85 million to $90 million, ahead of our prior guidance of the high end of $80 million to $85 million, with the increase reflecting a combination of incremental in-store shop-in-shop investments with key wholesale partners and the slightly higher than originally planned Factory House store count.

Now, moving on to our updated outlook for 2013. Our prior outlook called for 2013 net revenues of $2.21 billion to $2.23 billion, representing growth of 21% to 22%, and 2013 operating income of $256 million to $258 million, representing growth of 23% to 24%. Based on our current visibility, we are raising out net revenues outlook to a range of $2.23 billion to $2.25 billion, representing growth of 22% to 23%. We are also raising our operating income outlook to a range of $258 million to $260 million, representing growth of 24% to 25%. Below operating results, we now expect a full year effective tax rate of 40% to 41% compared to our previous guidance range of 39% to 39.5%. Fully diluted weighted average shares outstanding are still expected in the range of 108 million to 109 million.

With our first half results in the books, we have several additional updates to how we see the back half of the year playing out. First, net revenues. Based on our prior guidance, we expected a slightly stronger net revenues growth rate in the third quarter than the fourth quarter, driven by the timing of back-to-school footwear shipments and the sell-in from our new bag accessories line. Given current visibility, which includes bookings we have received for the fourth quarter, we now expect relatively similar net revenues growth rate in the third and fourth quarters.

Second, gross margin. As we enter the back half of the year, we have four themes that we continue to see playing out. The product cost benefit from the first half of the year is not expected to continue in the back half of the year. We will lapse last year's incremental air freight expenses. We will also lapse last year's excess disposition strategy at our outlet stores, and we are re-sourcing key products to more expensive but more reliable suppliers. In addition to these consistent themes, we have a few new factors that have recently come into play that impact the balance of the year.

First, as a result of an ongoing customs audit, we are having discussions with Canadian officials regarding changes to the importation value methodology for goods imported into Canada. We are challenging many of the audit findings, and there is uncertainly on the ultimate outcome and timing. However, changes in our existing methodology are expected to have an unfavorable impact on our gross profit.

Second, we are factoring into our plan the impact of foreign currency fluctuations, most notably with the weaker Japanese yen and Canadian dollar. These businesses are weighted to the back half of the year, particularly within our licensing relationship in Japan, where approximately two-thirds of our royalty revenues in 2012 were generated in the second half of the year. We expect these new factors to offset some of the early stage supply chain permits that came in better than anticipated during the second quarter. Therefore, we still expect the full year growth margin rate to improve only modestly from the 37.9% level in 2012. Regarding the balance of the year, we now expect fairly consistent year-over-year growth margin declines in both the third and fourth quarters.

Now, our SG&A buckets. In marketing, we continue to see leverage in the third quarter followed by a more consistent year-over-year rate of spending in the fourth quarter. We currently expect the full year marketing expense rate will be relatively comparable to the 11.2% rate in 2012. Combining our other three SG&A buckets, we expect expense leverage to occur in both the third and fourth quarters. Overall, we continue to expect a relatively consistent rate of consolidated SG&A spending for the full year which will drive only modest operating margin expansion this year from the 11.4% level achieved in 2012.

One final note on SG&A. Last month at our Investor Day, we discussed our growth plan for 2016 and the pace of investment needed to support this growth. As such, we would expect to be opportunistic if any additional net revenues or gross margin upside to our plan during the duration of this year by reinvesting in SG&A to help support these growth initiatives in future years. For instance, we are taking advantage of some opportunities to enter new markets ahead of plan, including opening new subsidiaries in places like Brazil and Chile.

Regarding our tax rates, as previously mentioned, we expect reduced profitability overseas due to incremental investments in our international business and lower-than-planned contribution from our existing international business due primarily to currency will continue to adversely impact our tax rate. Thus, we now anticipate a full-year effective tax rate in the range of 40% to 41% ahead of our previous guidance of 39% to 39.5%.

Finally, a few thoughts on inventory. We expect the inventory growth rate will peak in the third quarter primarily given the normalization of our fleece levels after last year's delivery challenges. By year end, we expect the inventory growth rate will be more in line with our net revenue growth rate.

We would now like to open the call for questions. We ask that you limit your questions to two per person so we can get to as many of you as possible. Operator?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Omar Saad with ISI Group.

Omar Saad
Analyst, International Strategy & Investment Group LLC

Q

You talked a lot about international in your prepared remarks, and I wanted to get your thoughts in terms of how those channels are developing, and if you see kind of the partners out there, at least on the wholesale side, that you can work with in some of these new markets, or is DTC going to be a key factor there? And then, also on the tax rate, does that play into the international piece? It came in a little bit higher, and you kind of raised the tax rate kind of as well. Thanks.

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

A

Yeah, well, I'll let Brad jump on the tax rate, but let me start with, you know, international, as you can hear, we're really excited about it. We think there's, as I said, it's going to be our largest growth category next year, which will be somewhere north of 40% as we see it at the company. And again, it's off of a small base right now, it's only been 6%, 7% of our total revenues to date, but it's something we're, we continue to get, be emboldened and gain confidence in the fact of what international can be.

The way we evaluate the opportunities as a whole, you know, it begins with the opportunities. So, we're currently doing business in 61 markets today. When I say doing business really well, it means that in a lot of the times, we just have a rack of clothes and maybe a distributor. And so we're really trying to professionalize that and really grab markets that we can make an impact in.

So beginning, (a) with the opportunity of where should we go based off GDP, things like that, then we're looking at the return because we're not looking to make 15-year investments, although we have the ability to do that, and we are in some cases, but we understand that we also want to invest in markets that can return to us quickly. And then we're also looking at the market expertise, and that basically comes down to do we have the leader? It's the thing that took us to Japan back in 1999 or 1998, and it's what is leading us and getting us so excited about markets like Brazil that I mentioned, where we have nearly 50 years of experience.

So, what we're finding when we go to these markets, as we mentioned in Japan, we'll have 24 wholly-owned stores there this year. So, we like controlling our destiny, because we're not in such an advantaged position. Sporting goods doesn't exist as cleanly as it does here in the States in the majority of the rest of the world. So we're having to be a lot more thoughtful and a lot more creative. And it means we're not taking one playbook into the new markets that we're attacking and going into.

I mentioned Latin America. You know, Charlie's expertise, Charlie Maurath, our Head of International, he understands that world and has it inside and out, which is why we're transitioning our Mexican distributor as a wholly-owned subsidiary in the first part of 2014, the reason why we're getting behind and looking at markets like Chile, Argentina, Peru and making investments with things like the Colo-Colo football club that we have down there now, and being really excited.

And then also places that, you know, you – we're not talking as much about, things like Australia that we think is a great sport market for us and a place we can be really impactful. We just sent a good young leader down there as the Head of Australia for another wholly-owned subsidiary for us. And then we also have some of our heritage businesses, like Europe. We really believe that, (a) we've got leadership in place, we believe that we've got momentum in Europe, you know, coming off the British Open, don't forget some of the exposure that we saw there. We just launched our new kit with Tottenham. But we're really, I think, beginning of brand and beginning a relationship with the Continent. And, as you know, that takes one market at a time.

If I can touch on China really quickly also, we've got five stores open today. We'll have more than eight by the end of 2013. We've got great leadership there in place. And again, just building that culture. So, as we sit here in year 12 doing business in China, in year three selling things in China, we feel like we're finding our way.

You know, we just announced this morning also a new partnership with GigaSports that opened product. And the early reads on product, you know, we weren't selling product in Hong Kong. We had a sourcing office there, a liaison office there, for nearly a decade. And the product is doing very well in the early reads that we're seeing. And more importantly, it's a very balanced approach between Apparel and Footwear, which is some of the other advantages that we get of introducing ourselves to a consumer not just as an apparel company, but as a true head-to-toe athletic brand.

And then, finally, if I can, just on Japan, our partners, as I mentioned, they continue to do a great job. It begins with leadership, and our partner, [ph] Felicia Asudo (33:31), who runs our business there with Dome Corporation, continue to drive Under Armour. Again, we see their business up closing on 30% this year. And that's a – it's a challenging market, but it's one I think where Under Armour continues to separate itself from the fashion side as well as from the – with this true sport authentic piece.

Brad?

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

Yeah, Omar, on the tax side, obviously the U.S. has one of the highest corporate tax rates in the developed world which is unfortunate in general, but especially for us where approximately 90% of our revenues are generated at this point. The opportunity for us to have a lower tax rate is really to increase our global footprint. The good news here is we've invested a lot of time and money over the last five or so years implementing a really sound international tax structure. The good news is the structure is in place. It's ready to go. That sits behind us.

So there's really two ways for Under Armour to generate profits overseas going forward, which inherently would be taxed at a lower rate than in the U.S. One is the sourcing structure we have, and we have physical presence overseas and substance overseas that provides a lot of crucial product development and supply chain support to deliver our products to our customers. We do have some of the structure in place, and we are already seeing some of the benefits of that structure in our current tax rate. But the bigger piece probably is just profitable international business from top to bottom overseas. Again, a roughly 90% U.S. base, we really don't have this yet. This is where the longer term opportunity is for us. A larger proportion of not only revenues, but a large proportion of profits overseas will be the ability for us to see a more favorable tax rate.

Since we're clearly in investment mode right now on the international front, the profitable piece of this business is longer term, and that's why you're seeing a tax rate benefit also to be longer term for us relative to that. But basically, if you look at the tax rate for us, as our profits overseas increase, our tax rate should benefit being taxed in lower-rate jurisdictions. And on the flip-side, if our overseas profits decline, this would hurt our tax rate as a higher proportion of our income would be taxed in the U.S. This is kind of evident this year when we talked about it in prepared remarks with the recent acceleration of investments in Latin America and our FX exposure to our Japanese licensing business both reducing near-term profits overseas, which was the reason why we saw our tax rate kind of uptick this year. But longer term, again, as we expand our international business and become more profitable longer term, that should have an obvious benefit to our tax rate.

Omar Saad
Analyst, International Strategy & Investment Group LLC

Q

Thanks, guys.

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

A

Thanks, Omar.

Operator: Our next question comes from Mitch Kummetz with Robert Baird.

Mitch J. Kummetz
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Thank you. A couple questions. First, for Brad. I don't recall you talking about discounts and allowances for a while in your gross margin discussion. Could you just remind us where fill rates have been trending through the first half of the year maybe compared to last year, and sort of what your expectation is there as we go forward into the back half?

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

Yeah, Mitch. On the fill rate side, the trends have been pretty positive. Still not where we want to see them be, but they're trending very positively compared to last year. So we had fill rates in the back half of last year especially by customer request dates as low as in the 60%'s, in the low 60%'s, at some point in the back half of last year. And even by cancellation date, that did improve maybe into the low 80%'s as a percentage for fill rate for kind of our seasonal products.

Our AR items last year were probably closer to a 90% fill rate, especially in the back half of the year. What we've seen with the trending so far in the front half of this year is much better fill rates. Still, again, not where we want them to be. But right now as we look at the second quarter of 2013, our fill rates by cancellation are kind of more closer to 80%. So up from that low 60%'s last year to closer to 80% this year. And then by cancellation date, we're in the 90%'s on seasonal product, which again, we were in the low 80%'s last year. And on the AR side of our business, auto replenishment side of our business, we're into the mid-90%'s now. So definitely seeing the positive trends from last year to this year. Still have a little bit of work to do there to get where we want to get, which the goal is to kind of have the overall bulk of those metrics kind of in that 90% to 95% range by customer request date.

So we still have some work to go. But as far as discounts and allowances go, we've talked a little bit about that in the past, and obviously, we're seeing less of an impact on that right now with fill rates trending in a positive direction. We're not really seeing any negative impact to discounts and allowances, and positive impact for the most part is in our numbers and in our guidance, and it's relatively small at this point in time.

Mitch J. Kummetz
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Okay. And a second question. Can you just – as far as your guidance for the back half of the year, your sales guidance, is there a sort of a underlying weather assumption that that is based on, or maybe you're expecting sort of similar weather to a year ago or better weather, a normal winter? And then, with that as a backdrop, how are you thinking about reorders and maybe the comp on your owned stores in terms of kind of what's embedded in your back half outlook?

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

Yeah, back half outlook for the most part, if you look at kind of our Q3 and Q4, not really seeing a lot of changes in our Q3 outlook in revenue relative to our previous guidance. What we have seen is a little bit of more favorability to our bookings on the wholesale side in the back half of the year, especially as we get into Q4. And some of that also, that Q4 strength, is being driven by the fact that we are making some additional investments in shop-in-shops, at especially Dick's Sporting Goods, which will have, most of those will be in place by the fourth quarter and therefore have some impact in the fourth quarter. And this higher outlet store count we talked about will really come into play in the fourth quarter and out the third quarter also.

So, some of what you're seeing is kind of the nuances of the Q3, Q4. The Q3 story is pretty much the same as our previous guidance. Q4 is a little bit higher because of some of the visibility we have around our bookings and also some of the things we've done in the investment side in in-store shop-in-shops and outlets – and the outlet side.

As far as the weather goes, we really kind of take it a point to look at last year's weather and then use that as a predictor for this year's weather. So for the most part in our businesses, I believe whether it's wholesale, retail, e-commerce, we are reflecting in our guidance a similar weather pattern in the end of Q3, Q4 this year that we saw last year.

Mitch J. Kummetz
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Okay. That's helpful. All right. Thank you. Good luck.

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

A

Thank you.

Operator: Our next question comes from Robby Ohmes with Bank of America Merrill Lynch.

Robert F. Ohmes
Analyst, Bank of America Merrill Lynch

Q

Can you guys hear me?

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

A

Yeah, Robby.

Robert F. Ohmes
Analyst, Bank of America Merrill Lynch
Q

Hey, just, actually, just one question. I was hoping that maybe, Kevin, you could talk a little bit more about the Footwear business. So the Spine has done well, Speed is being well received. How should we think about the timing of a more significant ramp up in Under Armour sneaker business, and what are the puts and takes on that happening faster or slower? And then remind us how you're seeing gross margins in the Footwear business being impacted by the growth of sneakers and whether that's coming through as expected or better than expected? Thanks.

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

Yeah, I think if we take a second on Footwear, I want to be clear we're certainly not declaring victory by any stretch, but we certainly have a lot of things that are moving in the right direction which give us an incredible amount of confidence that we can be as important in footwear as we are in apparel. And so it begins, you mentioned Spine. I agree. It was a $100 platform we began with, and we worked that price point now to where it's somewhere between $90 to $110, depending on the style and where we are with the product. But it's been very well received. And more importantly, we're beginning to build some legacy where the consumer knows what to expect and can start asking and having anticipation of what the Spine product is going to be. And these are things that just take time. So we're very fortunate to start figuring it out. And I think all this groundwork is really laid as we look at our seven-year heritage that we have in the cleated business.

So the reason that we point, we make such a big deal about Highlight and the success that we're seeing there, you know, our partners at Eastbay through Foot Locker and, you know, between Ken and Dick and the leadership that they have there, and taking the best that they have on us in cleated footwear, as well as the way that that's translated in some of the running products that we have through their doors, you know, I think we're really encouraged by the signs that we're seeing. You know, I think we've been thoughtful about the size of the allotments that we're giving and the allocation that we're giving consumers, and I think we're right-sizing it as well.

There's three big stories that we have. Spine is obviously a big story. It's doing really well. It's a good, solid shoe for us that's out there and something that we're going to come back in through the balance of 2013 and into 2014. The Highlight cleat is something which is really, it's innovative, it's different looking. It's working for the athlete, and it's something which is a, it's a real differentiator for our brand. And it fits with our brand, and it is great product at $100 plus price point is something which is unique for us. The last is Speedform, and Speedform for us, it puts us on a completely different level. You know, we've talked about our success in football and baseball and gaining massive, massive market share in baseball this year. I think we'll see where things shake out with football. But we see really strong gains in football market share as well.

But Speedform is something where we target and we put a zero on what running can be for us. We need to be impactful, and we need to be differentiated, and Speedform really gives us that. I mean, it's product that, it's built in a bra factory. And what that means is that it's a group of people that have been on this product for about the last three years that really understand fit, and really taking a different approach to the way that this shoe has been made. You know, we went into a lot of detail at Investor Day here to take you through Speedform, and it's fun watching it hit the market. And again, in very small pairs, but something that gives a great indication of what 2014 is going to bring when we roll it out in a much bigger way. But there's a lot of things for us to consider here from making product in a new factory and capacity issues and a few other things.

So, we're going to be smart. We're going to be prudent. We're not going to try to accomplish everything in just the next 12 months. But, you know, we think that we have a real platform, a real franchise business that we'll be able to build off of for a long time and we'll be able to take this in a lot of different directions as well.

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.
A

And, Robby, on the gross margin side, you know, you've got Footwear for us kind of globally right now, our Footwear margins are in the low 30%'s. And obviously, our ability to get to where we think we should be is probably closer to 40%, maybe low 40%'s in the longer term, is really going to be driven by a couple things, one being the mix of our footwear between cleated and non-cleated, and two, our ability to continue to innovate, like Kevin has spoken of, and also to produce footwear efficiently. So if you look at our mix, first on the mix side, our mix today still is heavily weighted towards cleated versus non-cleated relative to a lot of other players out there. Obviously, that cleated side of our business is really, really important to our overall Footwear business from an authenticity perspective and credibility perspective. But it does come at the lowest of low margins in Footwear. So with our mix being more weighted towards cleated, that obviously impacts our overall Footwear gross margins. Over time, though, as we are able to grow our non-cleated Footwear business, specifically things like running, which we've been recently doing, we have the ability, those come at better margins, and that should help our mix going forward, gross margins in Footwear, as we sell more non-cleated Footwear. And every indication is things like the Spine platform that we have and also Speedform that Kevin spoke of, are all things that are heading in the right direction for us relative to margins and how that can impact mix.

And obviously, just how we produce efficiently, too. The ability for us to keep gaining competencies and capabilities in the sourcing side, the product development side will internally help us do things better and produce things in a much better fashion and have an impact towards margins too. So again, low 30%'s right now. We do see ourselves over the long term working our way towards more of that 40%-ish to low 40%'s gross margin in Footwear. That will take up the ability to push the scale over on the non-cleated side to do that, produce things more efficiently internally. Also want to make sure – we keep going back to the fact that even though gross margins in Footwear in the 40% to low 40%'s will still be below our Apparel, that when you look at the whole business model of Footwear longer term, even though you have lower gross margins but those higher price points in Footwear does give you the ability to scale and leverage some SG&A to better fashion. And that operating margin business model in the longer term should look pretty similar on the Footwear and Apparel side.

Robert F. Ohmes
Analyst, Bank of America Merrill Lynch
Q

Got it. Thanks very much, guys.

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

Thanks, Robby.

Operator: Our next question comes from Michael Binetti with UBS.

Michael Binetti
Analyst, UBS Securities LLC
Q

Hi, and thanks for taking my question. Can you hear me okay?

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

A

Yep.

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

Yeah.

Michael Binetti
Analyst, UBS Securities LLC

Q

Okay. Thanks. So, I just want to understand the gross margin comments, Brad, a little bit in the back half. It sounds like the guidance is pointing to about 40 basis points of compression, and I'd like to make sure I'm directionally thinking about it correctly and that I understand what's changed in your thinking a little bit here. And maybe to start with, can you talk, maybe you could just talk a little bit about second quarter gross margins and where all the input costs and product cost leverage came from in the quarter. If I look back to last year, it was a slight headwind in the second quarter. But certainly the 140 basis point upside you pointed to is well ahead of where we were expecting. So maybe a little bit on the components there?

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

Yeah, you know, mix didn't really play a part there, so we had some positive and some negative mix. So that really wasn't at play as much as, as far as channel mix goes, that is. When you look at the two components that really drove Q2, it's pretty split between what I'd say is some better-than-expected supply chain efficiencies relative to freight. And that's both freight-in from the ability for us to reduce our exposure to air freight in Q2 and also freight-out to customers, some early wins we've had there. So, I'd say about half of what I would say is the upside benefit we saw in Q2 versus expectation was just from those types of things in the supply chain side.

And the other half I would say is more on the product cost side in general. A couple things there. One is, is there was a, the need from the customers on the Bag side of our business which we were, we talked about re-launching this year for back-to-school, a lot of our customers really wanted to get those bags on the floor early because it was a re-launch as you get into Q3, and those come at much better margins year-over-year. So there was a little bit of an earlier shipment on the Bag side, just a little bit, that had a good, positive impact on margins.

And also just on the costing side, truthfully, costing is an area that kind of worked against us from a product mix perspective, not necessarily a channel mix, but from a product mix has tended to be a little unfavorable for us over the course of the last four to six quarters. So we've been pretty careful in how we forecast that impact in our plans for Q2 and go forward. And we saw a little bit of a positive impact in Q2 that helped us, too, just from a product mix perspective. So, some higher margin products selling versus some of the lower margin products.

So, those are really the impacts on the second quarter. As far as you go in going forward into the second half of the year, again, we talked about here was some impact, some things that are consistent. We are going to be re-sourcing some product, especially on the fleece side. We've talked about this over the last quarter, few quarters. That re-sourcing will come at a little bit of a worse gross margin for us, but obviously gives us a lot more confidence in delivery and delivering to the top-line. And that will have a pretty significant impact year-over-year in the back half of the year on the product cost side. So those benefits you see in the product cost side in the front half won't be there in the back half. In fact, it will probably flip around on you a little bit in the back half because of that re-sourcing.

Still do see some upside year-over-year in air freight, which we saw in Q2. We'll continue to see that in the back half of the year. And we do still see that Factory House mix working in our favor year-over-year where we pushed a lot of excess through last year. So this year, especially in the fourth quarter, should have a little more upside there from the Factory House mix perspective.

And then, obviously, we talked about some of these new things, you know, the impact of the yen currency, which is for us a pure licensing profit business. So that does impact gross margin, that reduces our revenues on the licensing side. And obviously, it's a little bit of an uncertainty on the Canadian duty side, factoring that into our guidance, that uncertainty. And that'll offset some of the other upsides we talked about.

Michael Binetti
Analyst, UBS Securities LLC

Q

And just directionally, is the – you said air freight will be a positive. Will air freight to the magnitude that you thought it will be? Will it still be about the same tailwind for you in the back half of the year as what you were planning when we talked to you last time, Brad?

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

Yeah, it is. So, I think, you know, we pretty much anticipated the air freight and the supply chain initiatives to start kicking in in the back half of the year. The reality is they kicked in about a quarter early on us. So it was a Q2 upside, but we had anticipated some of these initiatives and benefits in the back half of the year already, so that's not a change, really.

Michael Binetti
Analyst, UBS Securities LLC

Q

If we add it all up, it doesn't seem like some of the supply chain efficiency being talked about in the second quarter are flowing through into the back half. Is that – or am I missing something on that?

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

A

They're definitely flowing through.

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

So again, the impact in the back half of the year for especially air freight is where most of these supply chain initiatives show up is very similar benefit as we talked about earlier...

Michael Binetti
Analyst, UBS Securities LLC

Q

Okay.

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

...in the last earnings call. It's that re-sourcing piece I think you have to look at to say, the re-sourcing of fleece, which is a very big product line for us in the back half of the year. Obviously, re-sourcing that is going to have a negative impact.

Michael Binetti
Analyst, UBS Securities LLC

Q

Okay. Thanks a lot, guys.

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

A

Yep. Thanks.

Operator: Our next question comes from Pamela Quintiliano with SunTrust.

Pam N. Quintiliano
Analyst, SunTrust Robinson Humphrey

Q

Great. Thanks for taking my call. Congrats on a great quarter. Kevin, just wanted to follow up on International. Understandably, you're tremendously excited about it. If you could just talk us through the brand awareness within some of the larger regions, and where you think there is the most opportunity with what Under Armour represents to the local customer versus what you think the product can be for them, and then where you potentially have the biggest hurdles.

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

A

You know, I think we're still establishing ourselves. You know, the one thing about International, and probably lessons learned over the last 17 or 18 years is that any of these things just take time. And I think a longer view is the way that we need to approach any of these markets. You know, I use the story of Japan a lot in sort of articulating how long it takes is, you know, eight years from $0 to $35 million, and then it was year nine that they went from $35 million to $72 million and I think the tipping point really occurred. So I don't know if that model, even with larger scale, larger size, more resources, the things that we have today going for us. You know, it still comes back to investment, and it's a prudent model. So I don't see where we just want to pour money in and really looking for losses. We can't really afford to do that, either. So, either drive with brand messaging, but we need to do it at a local and a grassroots level where, you know, letting people find out about us.

You know, opening Brazil, for instance, is probably a – it's a great example where we're walking into a market, it's got a tremendous amount of hype and excitement around it with this, we're looking at it, World Cup, and we played with the idea of how big do we need in trying to keep up with the Joneses? But that's not what you're going to find from us. And our approach to Brazil with the [ph] TEK (53:27) World Cup in 2014 and we need to be ready for the Olympics in 2016, and of course, we've got a great team over there on the ground literally with a pro running the office and Marcelo and the team that we have there who've done this and been in our industry and our business before. But, you know, we need to make sure that they've got the time and the resources to really be impactful. We don't want to be here today and gone tomorrow. So we want to start with the grassroots, with a local approach, and that's one of the things we do differently.

So each market will have its own nuance, but I think you'll see us recognize where we are, is that people have maybe heard of our brand or they've seen us before, maybe seen it online. But it also gives us the ability to take a different approach where e-commerce can play a much different role as we look to bring ourselves and enter into these new markets. So we're not just looking for traditional bricks and mortar, but we understand that we need to establish and we really need to do a lot of explaining as to who our brand is.

You know, a great story for this is actually a contest for opening up in Shanghai next month – or, I'm sorry, in September, and it's called the 'Under Armour Experience'. And it's basically, it's not only just saying we're going to open a store so we can sell product to Chinese market, we really want to bring something to China and the gift that we want to give them is what does it feel like and what is like to be an athlete?

And so this store is about 80% experience of what does it feel like to be in the middle of a pitch at White Hart Lane with Tottenham, or what does it mean to feel like you're in the ring with Canelo Alvarez, and what does it mean to feel like being on the court with Brandon Jennings and Kemba Walker and DeAndre in our basketball assets. And so, you know, there's a lot of education that goes along with it. The philosophy that we've taken as a company is that we've got a great U.S. business, a great North American business that is driving, creating profits for us, and we understand that there's a balance between our ability to utilize I think our North American growth and cash creation of making prudent investments in a longer term strategy of being a global brand.

As I've mentioned all along, our definition of global is more than half of our revenues will come from outside of the United States. And there's a lot of reasons for that. Number one, the opportunity. Our brand translates to consumers asking for it in other markets, and so we need to do a good job of making sure that we do that in a prudent way that's very Under Armour. And then also, as Brad said, there's a lot of strategic reasons for it as well, and, you know, we're not going to make decisions based on tax rates. But the fact is that there's a lot of things that can help us by being a more impactful and bigger global brand.

So challenges there, the second half of your question, you know, look, you're starting a brand new conversation. You're building a brand new relationship. And so, these things, again, the best news that I can say hopefully from a more prudent, maybe a little more seasoned company, and certainly from my perspective, is that we recognize it's not going to happen in two or three years. And if we get lucky in a market and it catches fire, great. But it's going to take 6, 8 and 10 years, and we're sitting here telling you that we expect to be around for that much time and more, and we're going to make the investments that will help us be great and be a global brand.

Pam N. Quintiliano
Analyst, SunTrust Robinson Humphrey

Q

And just a quick follow-up. The Shanghai store, is that something if it works out well you would anticipate doing in other regions? [indiscernible] (56:31)

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

A

Yeah, completely. You know, it's expensive, so there's definitely – I'm getting eyes over here, but it will be the first experience that we have. So again, it's 80% experience, and the last 20% is a very focused assortment of this is the world's greatest shoe, and you'll have the Speedform product. This is the world's greatest t-shirt, and you'll see one of our Tech tees or Charged Cotton. So we want to be very focused because a lot of people come in and they can get overwhelmed by a brand. So I think the key to any great brand is having a point of view. So we're going to sell with a point of view that when someone walks through and says, wow, I really understand (a) what it's like to be an athlete, and (b) Under Armour's interpretation of what being an athlete is like, and that these are the products that they endorse. This is the world's greatest t-shirt, this is the world's greatest shoe. So we'll keep it very simplistic and very easy for the consumer to understand, and then we're going to be driving people to our e-commerce website in China as well, as well as back to our other full-line retail stores that we have in the market. So we're going to learn a lot.

Look, I think the most important thing to International is that we're going to test a lot of different things of having good, smart, thoughtful people on the ground which we have in China, which we have in Brazil, which we have in Australia, which we have in Europe, and as we have across the globe, and so we're fortunate we have in Mexico. So we're very fortunate to have those. We're going to focus on those key markets that begin with having the right leader in the chair. And then we're going to invest behind them. And we think we can generate some heat and a lot of energy. So, a lot of exciting things to come from us on a global front, for sure.

Pam N. Quintiliano
Analyst, SunTrust Robinson Humphrey

Q

Sounds like it. Best of luck. Thanks.

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

A

Thanks very much.

Thomas D. Shaw
Director-Investor Relations, Under Armour, Inc.

A

Operator, we'll take one more question.

Operator: Our next question comes from Kate McShane with Citigroup.

Katharine McShane
Analyst, Citigroup Global Markets Inc. (Broker)

Q

My questions are for Brad this morning. Brad, with your SG&A comments today around 2016, I just wanted to make sure that that wasn't different than what you had said at the Investor Day, or was it just further clarification that you're going to be using upside to revenues to put towards SG&A?

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

Yeah, Kate, further clarification, really. So I think that at Investor Day, we were pretty articulate around the pace of operating margin improvement between last year and 2016 basically and why that pace and the importance of us to invest to support the growth that we talked about at Investor Day. So I think part of it, yeah, was just reiterating what we said at Investor Day was the fact that we are going to look and be opportunistic with any upsides we see in our business to either accelerate or support all those growth initiatives we talked about at Investor Day. And this is another example of what we're doing here in the back half of this year, the ability to enter the markets in Brazil and Chile and Latin America a little bit of a quicker pace than we originally planned, the ability for us to do that because we're seeing some upside in revenue in the back half of this year, so we're going to do that.

Katharine McShane
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. Great. And then my second question, just to follow-up on the revenue growth question from earlier, with the improved visibility with the wholesale ordering, is that coming from incremental distribution or the new incremental distribution to the department stores? And how much do they contribute to the revenue growth?

Brad Dickerson
Chief Financial Officer, Under Armour, Inc.

A

Well, we're seeing it across the board, really. It's not really a distribution strength as much as it is just in general across the board. Bookings are coming in a little better than we anticipated. Again, I don't want to also downplay some of the things that we've done and we've controlled here by investing some, in some extra shop-in-shops also at Dick's Sporting Goods and also a higher outlet store count. So those are investment decisions we made that are also impacting the back half and their revenues, too.

Katharine McShane
Analyst, Citigroup Global Markets Inc. (Broker)

Q

Okay. Thank you.

Thomas D. Shaw
Director-Investor Relations, Under Armour, Inc.

All right. Thanks, everyone, for joining us on our call today. We look forward to reporting to you our third quarter 2013 results, which tentatively have been scheduled for Thursday, October 24th at 8:30 a.m. Eastern Time. Thanks again, and good-bye.

Operator: Ladies and gentlemen, this does conclude today's presentation. You may now disconnect and have a wonderful day.