

**Kontoor Brands**  
**Fourth Quarter and Fiscal Year 2023 Earnings Conference Call**  
**February 29, 2024**

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**Presenters**

**Michael Karapetian, Vice President, Corporate Development, Strategy, and Investor Relations**  
**Scott Baxter, President and Chief Executive Officer**  
**Tom Waldron, Co-Chief Operating Officer, Global Brand President, Wrangler**  
**Chris Waldeck, Co-Chief Operating Officer, Global Brand President, Lee**  
**Joe Alkire, Chief Financial Officer**

**Q&A Participants**

**Bob Drbul - Guggenheim Securities**  
**Jim Duffy - Stifel Financial Corp.**  
**Brooke Roach - Goldman Sachs**  
**Paul Kearney - Barclays**  
**Mauricio Serna - UBS Group AG**  
**Will Gaertner - Wells Fargo & Company**

**Operator**

Greetings, and welcome to the Kontoor Brands Fourth Quarter and Fiscal Year 2023 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press “\*”, “0” on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Michael Karapetian, Vice President, Corporate Development, Strategy, and Investor Relations. Please proceed.

**Michael Karapetian**

Thank you, Operator, and welcome to Kontoor Brands’ fourth quarter and fiscal year 2023 earnings conference call. Participants on today’s call will make forward-looking statements.

These statements are based on current expectations and are subject to uncertainties that could cause actual results to materially differ. These uncertainties are detailed in documents filed with the SEC. We urge you to read our risk factors, cautionary language, and other disclosures contained in those reports.

Amounts referred to on today's call will often be on an adjusted dollar basis, which we clearly defined in the news release that was issued earlier this morning.

Reconciliations of GAAP measures to adjusted amounts can be found in the supplemental financial tables included in today's news release, which is available on our website at [kontoorbrands.com](http://kontoorbrands.com). These tables identify and quantify excluded items and provide management's view of why this information is useful to investors.

Unless otherwise noted, amounts referred to on this call will be in constant currency, which exclude the translation impact of changes in foreign currency exchange rates.

Joining me on today's call are Kontoor Brands' President, Chief Executive Officer and Chair, Scott Baxter; and Chief Financial Officer Joe Alkire. In addition, we will be joined by Tom Waldron, Co-Chief Operating Officer and Global Brand President of Wrangler; and Chris Waldeck, Co-Chief Operating Officer and Global Brand President of Lee.

Following our prepared remarks, we will open the call for questions. We anticipate this call will last about one hour. Scott.

**Scott Baxter**

Thanks, Mike. And thank you to everybody joining us on today's call. Before I discuss our results, I'd like to start with the announcement we made, this morning, on our global transformation project.

Project Jeanius is one of our most significant and important undertakings as a public company. The work we are doing will transform our organization from the legacy clone-and-go structure required at the spin to a truly best-in-class global, multi-brand platform, while unlocking significant sources of value.

Let me first start with what this project is not. This is not a cost-cutting exercise. Expense discipline is a foundational strength of our business and one that we prioritize regardless of market conditions. Rather, we are pursuing this proactively, and from a position of strength.

The steps we are taking will, fundamentally, improve our organization and, structurally, raise our profitability ceiling, creating more investment capacity to pursue growth, enhanced capital allocation, and improve our overall financial profile.

Unpacking this a bit more. When we first spun as a public company, our organization was set up to mirror our legacy structure. This was required to ensure continuity in the business while we focused on our Horizon 1 priorities, including de-levering our balance sheet, paying a superior dividend, and stabilizing our brands.

After successfully completing Horizon 1, we embarked on Horizon 2 with a solid foundation now in place. As a result, we have grown our top-line, gained market share, and improved operating margins from 2019 levels.

But as an organization, we do not rest on our laurels. The leadership team we have in place is tailor-made for this strategy and our next phase of growth. I am highly confident now is the right time to pursue this transformational initiative.

A word you hear from us a lot is optionality. It provides the flexibility to pursue sources of value for our stakeholders, wherever that may be, while providing the resiliency to respond to the types of disruption we have seen over the last five years. Project Jeanius will add optionality well above what we have been able to deliver in the past.

It will also simplify our organization. This will result in greater visibility into the business, improved decision-making, faster speed to market, and better leverage of our global ERP system. We are also establishing a true multi-brand platform from which our brands can grow. This new structure will allow for our brand investment at a level we simply have not been able to achieve under our prior structure.

To put some specifics to this. Project Jeanius is expected to result in \$50 million to \$100 million of combined gross margin improvement in SG&A savings. We expect the benefits to start in the fourth quarter of this year, and ramp in '25 and '26.

A question I expect you will want to know is whether we will invest these savings back into the business, or let it flow to the bottom line. The answer is both. And that is precisely the type of optionality that will separate us in the marketplace. We will be sharing more in the coming quarters, and I am confident this will drive accelerating growth over the coming years in the next chapter of our value-creation journey.

Let's now turn to our results. Twenty-twenty-three was a landmark year for Kontoor. We connected with more consumers, introduced powerful new product stories, and launched one-of-a-kind brand campaigns and partnerships.

At the same time, the market had its share of challenges, particularly in U.S. wholesale, where macro uncertainty is impacting retail inventory levels, and we are seeing the impact of global events internationally, particularly in Europe, where consumer sentiment and spending has been uneven. We anticipate these headwinds will continue into 2024, particularly in the first half.

We also have an opportunity to better diversify our business into large and growing categories, while expanding beyond our core channels of distribution. As we outlined at our '21 Investor Day, these are significant whitespace opportunities for us. That said, we have not achieved the

targets we set out three years ago. This is an important area of focus for us going forward, and initiatives like Project Jeanius will be key in unlocking this potential.

So, what gives me confidence we can deliver? First and foremost, our brands are winning in the marketplace. In the fourth quarter, denim sell-through of both Wrangler and Lee in U.S. wholesale increased 2%, as measured by Circana, outpacing the market by 500 basis points. And for the year, we saw a similar story with sell-through increasing 1% and outpacing the market by a combined 350 points. Importantly, this is not just a 1-year story.

Over the last two years, we have consistently outperformed the market by an average of three full percentage points.

While we have seen periods of lag between sell-in and sell-through, the bottom line is: Consumers continue to choose our brands. As you will hear from Tom and Chris, each brand has its own unique story to tell that is resonating in the market.

And finally, as Joe will discuss later, we made significant financial progress in '23. We successfully worked on our inventory position, ending the year 16% below prior year levels. Gross margin has inflected with a long runway for continued expansion ahead, and our cash generation accelerated. This supports increasing capital allocation optionality, including the \$139 million we returned to shareholders through dividends in share repurchases last year, as well as our new \$300 million repurchase program.

I'd like to close by reiterating my earlier comments. While the market remains dynamic, we are not standing still, and I am confident we have the team and strategy to deliver on the incredible opportunities ahead. The actions we announce today will fundamentally improve how we operate and drive the next phase of accelerating value creation for all our stakeholders. Tom.

### **Tom Waldron**

Thanks, Scott, and thank everyone for joining us today. Twenty-twenty-three was an incredible year for the Wrangler brand. We reached consumers like never before, expanded our market share and grew our direct-to-consumer business, all while navigating a challenging marketplace.

It starts at the intersection of product and storytelling. Wrangler is synonymous with cowboy culture, and that took on a new meaning last year with two of our most significant demand-creation platforms in years.

Starting with our brand ambassador, Lainey Wilson. Our partnership has exceeded all expectations. She is an incredible artist and to cap off an amazing year, she recently won the Best Country Album at the Grammy Awards. Congratulations to Lainey on her tremendous achievement.

She is expanding her reach with new audiences while being authentically western. We can see this in the data. Lainey Picks, a collection of her favorite styles introduced throughout 2023, resulted in over 60% new-to-file consumers.

In the fall of 2024, we will be building on this momentum by launching our first Lainey Wilson Collection. This will be a full assortment designed from the ground up in partnership with Lainey, drawing from her life on and off the stage. The product is already generating excitement, and we can't wait for it to reach consumers later this year.

And with the Dallas Cowboys, in the third quarter, we became the official jean of America's Team. This connection of two iconic American brands was an immediate success and will continue over the next two football seasons. Importantly, it is reaching a broader audience in a truly authentic way.

The Dallas Cowboys consistently ranked among the most-watched games of the season, and I couldn't be more excited about building on this partnership in the coming years. And this only scratches the surface.

Our sponsorship of Wrangler National Finals Rodeo was supported by our most successful Cowboy Christmas retail store ever. Our collaborations with Buffalo Trace and Barbie continue to show the broad reach of the brand, and our new innovation platforms, such as abrasion resistance, provide performance attributes that our consumers need and love.

So, how does this all translate? Our direct-to-consumer business grew 11% last year, reflecting investments we are making in our digital platform, combined with many of the initiatives I just discussed. Our female business — a key area of focus for us— grew 5%. Our non-denim bottoms business grew 10%. And finally, in wholesale, we drove share gains in every quarter of the year.

As it relates to U.S. wholesale, as Scott mentioned, we experienced the impact of U.S. retail inventory actions late in the year, and we anticipate this to continue, over the near-term. That said, Wrangler continues to win in the marketplace. To illustrate this point, while shipments were down in the fourth quarter, our denim POS, as measured by Circana, increased 1%, outpacing the market by approximately 400 basis points.

Looking ahead to 2024, we will continue to diversify Wrangler into large and growing categories. Outdoor has been a great story and one that we will build on. Outdoor is now nearly \$200 million business, growing 11% last year, and up approximately \$100 million from four years ago. We will continue to advance our product development capabilities in this important category, and I see another year of strong growth ahead, supported by new launches, including our performance ATG genome.

We will also continue to diversify our channel distribution. Outdoor provides a great opportunity to expand our reach into sports specialty, supported by improved product segmentation and elevated design. I am particularly excited about our new bespoke launch for female. This premium performance fit innovation will be sold through our digital platform and specialty retail, and the response from the marketplace has been fantastic.

At a Kontoor level, we are also highly focused on driving greater efficiency in the business. Beyond Project Jeanius, we are conducting SKU-level productivity assessment. While less visible than much of what I've discussed today, this foundational-level work is a core strength of our organization and will help make Wrangler and Lee more profitable businesses in 2024.

Finally, I want to provide a few additional thoughts on the upcoming year. First, as you have heard, Wrangler continues to win, supported by an incredible array of product and demand-creation initiatives. That said, we are planning the business prudently, particularly in the first half, as the U.S. wholesale impacted by cautious retail ordering. As we look at the back half, there are several factors that give me confidence.

First, we have good visibility into new distribution gains, driven by the product launches I discussed today, as well as increased real estate due to strong sell-through. These largely start in the second half of the year. Second, we have a strong cadence of collaboration and demand-creation platforms that are primarily back-half weighted. And finally, we will be relaunching denim at a major national retailer starting in the third quarter.

Before I hand it over to Chris, let me reiterate the confidence I have in the entire Wrangler team and our positioning as we enter the new year. I have been on this business for nearly 30 years and have never been more optimistic about the future. Chris.

### **Chris Waldeck**

Thanks, Tom, and thank you all for joining us. I would like for you to take away one word from the day: Innovation. Lee has a deep history of bringing newness and is a standard for innovation in the world of denim. Our archives are among the deepest in apparel and allows us to draw from years of authentic heritage and craftsmanship, while always looking forward.

Our team's focus has been and will always be the consumer and answering their needs. We do this through intense focus on innovation like flexibility, fit, softness and climate control, to name a few.

To put this in perspective, in 2023, two-thirds of our U.S. men's denim business came from our innovation platforms. This year, we will launch our most significant new innovation in years. Comfort and style too often require trade-offs. Lee-X addresses this gap by taking all the comfort of our performance pant and combining it with the aesthetic of a world-class jean in a way only Lee can.

And importantly, Lee-X will be a true global innovation platform with denim bottoms, non-denim bottoms, and tops. This combination of craftsmanship and style and comfort don't exist at our price points, and we are excited to share it with consumers, later this year.

And we are bringing these platforms to life through our successful digitally based demand-creation strategy targeting a new younger consumer the Lee-X platform was designed for. These platforms also expand our ability to engage with consumers, wherever and however they choose.

Innovation could also be found in our collaboration strategy. In December, Lee and Diesel came together to create something incredibly unique and innovative. Each jean is made with 50-50 combination of unsold Lee and Diesel jeans. Initially launched in limited collection in Europe and Japan, the first drop sold out in weeks. The second drop will be in March, globally. Combined, these strategies are opening up elevated channels of distribution and attracting new consumers to the brand.

With that, let's review our results and how we are planning the upcoming year. First, as Scott and Tom discussed, U.S. wholesale is currently seeing the impact of cautious retail ordering, and I expect this to continue, over the near-term.

That said, Lee is entering the year with great momentum, with POS accelerating over the back half of the year. As measured by Circana, Lee denim sell-through increased 4% for the fourth quarter and outpaced the market by 750 basis points. For the year, Lee outpaced the market by approximately 150 basis points, and the strength is not just in denim.

Looking at our broader categories of denim, casual pants and shorts, our sell-through grew 2% for the year and accelerated to 8% growth over the last six months. While we are seeing the near-term impacts on shipments, there is no doubt innovation-led newness is a powerful combination and is resonating with consumers.

Let me now touch on Kontoor's international business for both brands. In EMEA, the macro headwinds are expected to continue, particularly in the wholesale channel as economic disruption has weighed on retailer open to buy. We saw this in 2023 with our wholesale business declining 8% for the year. This was partially offset by growth in direct-to-consumer.

To support our growing D2C business, we are refining our brick-and-mortar strategy, leveraging best practices from our Asian market, while continuing to invest in our digital platforms. We launched a loyalty program that is already generating impressive results, including higher AOVs and repeat purchases.

Our EMEA D2C business grew 13% in 2023, and we expect another year of healthy growth, ahead. Scott talked about Project Jeanius, and we expect it to have a meaningful impact on our

EMEA business, simplifying our go-to-market process and enabling a true pan-European business model.

In APAC, we ended the year strong, with China revenue growing 25% in the fourth quarter. The key focus for '23 was improving retail inventory levels, and the team delivered. At the end of the fourth quarter, channel inventories decreased approximately 30%, compared to a year ago. This will be a key unlock to acceleration we expect in the coming year.

We will also continue to evolve our digital strategy, leaning into newer e-commerce technologies. These live streaming platforms have, quickly, become a channel of choice for this highly sophisticated consumer, and we are seeing strong double-digit growth as a result.

Additionally, we launched an initiative to refresh over 70% of our China store fleet, over the next two years. And our licensing business is scaling, reflecting momentum for both Lee and Wrangler, as well as positive impact of new markets added, over the last two years. Combined, both brands grew double-digit in 2023.

And finally, six months ago, we had a strong leader to the region who joined us from Adidas and had previously spent 15 years with Nike. She has made an immediate impact, and I'm excited about the future for our Asia business.

Before I turn over to Joe, I'd like to provide some final perspective. First, our innovation pipeline is as strong as I've ever seen. And we have clear visibility to exciting launches, such as Lee-X, later this year. Second, the Lee brand is strong in gaining share in the market with sell-through accelerating, supported by many of the initiatives we discussed today.

And, finally, our China business is poised for growth, with channel inventories clean, investments in stores, and our strong leadership team in place. While we are planning the business conservatively, particularly over the near-term, this gives me great confidence as I look to the new year. Joe.

### **Joe Alkire**

Thanks, Chris, and thank you all for joining us, today. I'd like to begin by providing perspective on the fourth quarter, before reviewing our results in more detail.

POS significantly outpaced our shipments, as we continued to drive market share gains in the U.S.

That said, the wholesale environment was challenging during the holiday period, with retailers tightly managing inventory receipts in the face of an uncertain consumer spending backdrop, which negatively impacted our revenue.

Overall, we fell short of our revenue outlook by approximately \$50 million. The POS performance of both Wrangler and Lee was fairly consistent with our expectations, as both brands continued to gain share. However, in light of the slowdown in POS, which we did anticipate, key accounts reduced inventory levels more than expected.

Despite the revenue shortfall, we are pleased with our execution and the profit inflection we delivered as a result of strong gross margin expansion, which we expect to continue in the coming year. We also took more aggressive action on our own inventory during the quarter, resulting in stronger cash generation and a healthier foundation for 2024, albeit at the expense of near-term gross margin.

I will expand on this in a moment, as well as highlight how the confidence we have in our 2024 outlook and the additional actions we announced this morning with Project Jeanius will fuel the next leg of our TSR journey and support the optionality we see in the business moving forward.

Before we review the details of our fourth quarter, I'd like to briefly touch on the additional audit period duty charge we incurred. If you recall, the duty matter was originally identified late in the third quarter and arose from our ERP implementation dating back to 2021. We recognized \$13 million of audit period duty expense in the third quarter, which was an estimate, based on the information available at the time.

As a result of additional testing and procedures, we identified \$6 million of additional duty expense related to prior periods and recognized the expense, accordingly, in the fourth quarter. To answer a question likely on your minds, we do not expect to incur expense related to this matter going forward.

So, with that, let's review our fourth quarter results. Global revenue decreased 9%. Two main factors impacted the quarter relative to our previous expectations. First, we experienced a greater-than-expected decline in U.S. wholesale, as retailers more aggressively managed inventory receipts.

Inventory normalization has been a theme for the majority of 2023, as we work with our partners to find equilibrium against what remains an uncertain environment.

While we anticipated a deceleration in POS, the magnitude of the inventory reductions was greater than expected and weighed on selling during the quarter.

While inventory levels at retail are currently suboptimal, we expect retailer caution to continue in the near-term. But the performance of our brands and continued market share gains is leading to expanded distribution in 2024, which we expect to drive an improvement in revenue, as we progress through the year.

Second, in mid-2023, we began a modernization project in our distribution center network. This included process and systems upgrades to improve service levels and efficiency, most notably in support of our growing DTC business. This work continued into the fourth quarter and had a greater than expected impact on e-commerce fulfillment during the holiday period, particularly for the Lee brand.

The project is now complete, and we have returned to normal service levels.

Stepping back, full-year revenue declined 1%. We drove 9% growth in DTC with gains in both digital and brick-and-mortar, as well as 4% growth in digital wholesale. This was offset by a low-single-digit decline in wholesale, due primarily to retailer inventory management dynamics at the end of the year.

And for the second half of 2023, despite the 2% decline in revenue, gross margin expanded 120 basis points, excluding the out-of-period duty charge, operating income increased 5%, and we generated approximately \$225 million of free cashflow, as a result of strong profitability improvement and reductions in inventory. We expect this fundamental profile to further improve in 2024.

Turning to our brands, global revenue for the Wrangler brand decreased 10%. The decline was primarily driven by U.S. wholesale, offset by growth in DTC and digital wholesale. For the full year, Wrangler was flat, with double-digit growth in DTC, offset by a decline in wholesale.

Outside the U.S., full-year Wrangler international revenue decreased 1%, driven by a slight decline in wholesale. This was partially offset by growth in European DTC, which increased 13%, reflecting investments in owned stores and our digital platform.

Turning to Lee, global revenue decreased 7%. Similar to Wrangler, the decline was driven by reduced shipments in U.S. wholesale, as well as impacts to DTC from the previously mentioned distribution center upgrade. This was partially offset by a return to growth in China.

For the full year, Lee revenue decreased 4%. We expect to see improvement in Lee's performance in 2024, driven by new innovation platforms, distribution gains, as well as an acceleration in China.

Turning to gross margin, as expected, adjusted gross margin inflected strongly in the fourth quarter, expanding 230 basis points, excluding the duty impact, driven by the benefits of pricing, channel mix, and lower product costs. The quarter included the impact of proactive inventory management actions, as we more aggressively cleared excess inventory in light of the environment.

Excluding this impact, adjusted gross margin expanded 290 basis points, which was in line with our expectations. These incremental inventory actions drove stronger cash generation as we closed out the year and established an even stronger foundation for 2024.

Adjusted SG&A expense was \$202 million. Investments in DTC and technology were partially offset by disciplined management of discretionary expenses.

For the full year, adjusted SG&A expense was \$760 million, flat compared to the prior year.

Adjusted earnings per share was \$1.28, including a \$0.07 negative impact from the duty charge. Excluding the duty charge, adjusted EPS was \$1.35, representing a 54% increase versus the prior year.

EPS was positively impacted by discrete tax items, primarily as a result of the execution of tax planning strategies that are expected to lower cash tax payments in future years. For the full year, adjusted EPS was \$4.45, excluding the duty charge, compared to adjusted EPS of \$4.49 in the prior year.

Now, turning to our balance sheet, inventory decreased 16% to \$500 million, in line with our expectations, despite the revenue shortfall. We are pleased with our execution and the progress we made to further reduce inventory levels.

While we still have work to do, net working capital improvement is driving significant cash generation, further supporting operational and capital allocation flexibility. We expect our inventory to continue to decline in 2024, including a 20% decrease in the first quarter.

We finished the year with net debt or long-term debt less cash of \$569 million and \$215 million of cash on hand. Our net leverage ratio, or net debt divided by trailing 12-month adjusted EBITDA, was 1.6 times, in line with expectations and within our targeted range.

During the quarter, we repurchased \$30 million of stock under our previous program. As we announced in December, our Board approved a new \$300 million share repurchase program, which reflects the confidence we have in our strategic plan, the strong cash generation of the business, and the enhanced capital allocation optionality that will support strong shareholder returns, over time.

And finally, as previously announced, our Board declared a regular quarterly cash dividend of \$0.50 per share. Combined with share repurchases, we returned a total of \$139 million to shareholders during the year.

Now, turning to our outlook. Revenue is expected to be in the range of \$2.57 billion to \$2.63 billion, reflecting a decrease of 1% to an increase of 1%.

Our outlook reflects the following expectations. First, we continue to anticipate a challenging U.S. macro environment, particularly in the first half of the year, reflecting many of the dynamics we discussed in the fourth quarter, as well as the cautious approach retailers are taking to seasonal product, following a difficult spring 2023 season.

While we are pleased with continued U.S. market share gains, we are planning the business conservatively as retailers tightly manage inventory levels. Our full year outlook does not contemplate a meaningful improvement in overall POS or retail inventory positions, compared to the fourth quarter of 2023.

Second, we have visibility to a number of distinct initiatives that are expected to benefit the second half of the year. This includes the new category and distribution gains Chris and Tom discussed, expansion of our tops in outdoor businesses, and new innovation platforms.

Third, we anticipate stronger international growth driven by China, reflecting a continuation of the momentum we saw in the fourth quarter, the investments we are making, and improved market fundamentals. This will be partially offset by Europe, where we expect continued softness, given ongoing headwinds in the region.

Finally, we expect strong growth in DTC, as we continue to invest in our digital platform, improve channel segmentation and support our demand creation pipeline.

We anticipate first half revenue to decline at a mid-single-digit rate, followed by mid-single-digit growth in the second half of the year. First quarter revenue is expected to decline about 9%, due in part to ongoing retailer caution and the more conservative approach to seasonal products, just discussed.

Gross margin is expected to be in the range of 44.2% to 44.4% on an adjusted basis, representing an increase of 170 to 190 basis points, compared to adjusted gross margin of 42.5% in 2023, excluding the duty expense.

Our outlook reflects more than 250 basis points of gross margin expansion in the first half, with the first quarter in the range of 44% to 44.2%, driven by the structural benefits of mix as well as lower input costs, partially offset by targeted pricing and the impact of the Red Sea disruption in the first half of the year.

Gross margin expansion is critical to the earnings growth assumptions in our outlook, so let me dive deeper into the building blocks of our plan and the confidence we have in our ability to meet or exceed the outlook just provided.

First, structural drivers such as DTC and international are intact.

Second, we have good visibility on input costs with cost locked in through the second quarter on manufacturing and into the third quarter on sourced product.

Third, we have taken action to further optimize our supply chain footprint, structurally lowering our costs.

And fourth, the composition of both our own inventory and inventory at retail has improved versus a year ago, and we have been prudent with regard to our assumptions related to the pricing and promotional landscape.

Beyond these near-term drivers, we have the opportunity for further gross margin expansion as a result of Project Jeanius, SKU rationalization, and greater supply chain efficiency, which will drive gross margin beyond our previous expectations, over time.

SG&A is expected to increase at a low- to mid-single-digit rate on an adjusted basis, and operating income is expected to be in the range of \$372 million to \$382 million, reflecting growth of approximately 7% to 10%, compared to the prior year, excluding the duty charge, including double-digit operating income growth beginning in the second quarter.

EPS is expected in the range of \$4.65 to \$4.75, representing growth of approximately 4% to 7%, compared to adjusted EPS in the prior year, excluding the duty charge. Full year EPS growth will be negatively impacted by about 5 percentage points from the higher tax rate. We anticipate first half EPS to be consistent with prior year levels with first quarter EPS of approximately \$0.90.

To wrap up, I'd like to share additional perspective on Project Jeanius and the significant optionality we see in the business moving forward.

In late 2023, we launched the planning phase of a comprehensive end-to-end business model transformation with the goal of creating investment capacity to catalyze the next leg of Kontoor's value-creation journey. Project Jeanius will result in significant gross and operating margin expansion and allow for a step function change in investment to fuel accelerated growth.

We see total run rate savings of between \$50 million and \$100 million, with benefits starting in the fourth quarter of this year.

As we activate the program, we anticipate restructuring, one-time, and other costs in the coming quarters, which we will disclose, as appropriate. The impact of Project Jeanius is not yet reflected in our 2024 outlook, and we intend to share additional details in the coming quarters.

Before we open it up for questions, a few closing remarks. The global operating environment is uncertain, and we are planning the business conservatively. We will remain disciplined with regard to investments, balance sheet management, and capital allocation.

Our brands are winning in the marketplace. Our gross margin algorithm is poised to accelerate, and when combined with our proactive inventory actions, I have high confidence in our outlook for strong operating earnings growth, cash generation, and returns on capital.

The strength of our balance sheet, combined with our cash generation, provides significant capital allocation optionality, and we are in an offensive posture, commencing Project Jeanius from a position of strength to increase investment capacity and accelerate growth, all of which combines to support our commitment to delivering strong TSR. We look forward to sharing more in the coming quarters, as well as at our Investor Day, later this year.

This concludes our prepared remarks, and I will now turn the call back to the operator.

### **Operator**

Thank you. We will now conduct a question-and-answer session. If you would like to ask a question, please press “\*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “\*”, “2” if you would like to remove your question from the queue. We ask that you limit yourself to one question and one follow up. For participants using speaker equipment, it may be necessary to pick up the handset, before pressing the star keys. One moment while we poll for questions.

Our first question comes from Bob Drbul with Guggenheim. Please proceed.

### **Robert Drbul**

Hi. Good morning. I was wondering if you could spend some time, just a little bit more time, on the U.S. wholesale business. I guess, when you think about what materialized in the fourth quarter, I think it would be interesting to just understand how you’re planning. I don’t know if you could sort of put some more numbers around how you’re planning the wholesale business in the first half versus the second half, how much of the businesses’ replenishment versus preorder.

And then, I guess, if you could expand a little more on distribution gains in the shelf space that you’re winning, just where that’s coming from and sort of how that factors into the assumptions on the U.S. business. Thanks.

### **Joe Alkire**

Hey, Bob. Good morning. It’s Joe. Maybe I’ll tee this up with the financials and I’ll toss it to Scott, Tom, and Chris to provide some color. So, yeah, in the fourth quarter, the delta to our outlook of the \$50 million revenue shortfall was really a direct result of more conservative inventory retailer management by the U.S. partners. The slowdown in POS, as we said, we did

anticipate the reduction in inventory levels. But in Q4, our POS did outpace our shipments. We did continue to gain share, but selling was clearly impacted by the inventory management dynamics.

And just to put some perspective on that, inventory levels at our key accounts declined close to 20% by the end of the year versus where they were in Q3, which clearly had an impact on our selling. Scott.

**Scott Baxter**

Yeah, Bob, I'll make just a couple of comments before I hand it over to Tom and Chris. But I'm coming up on 20 years of leading or being involved in the denim business here. And I will tell you this, I've seen this before five or six times. And I think I wanted to speak about how I see this before and how I see this now, and it really is different; it's a much different picture.

Previously, when we weren't investing in these brands a decade ago and even just prior to the spin, we were in a much different place when our retailers behaved and acted like this. And totally understand that, but we weren't investing in the brands. They weren't growing. We weren't putting any energy behind them. But we are in a totally different space right now, as we go through this. And Joe hit on it, and the other guys will hit on a little bit. But we are taking significant share in a category that's growing a little bit.

But we just continue over a long period of time to put a lot of energy behind our two big brands. Our collaborations are working, our advertising programs are working, our digital programs are working, the consumer is really excited about our brands, most importantly, our product looks great. And because of that, we will come out of this in a much different place than the previous times this has happened, because we are really important to our customer in that respect.

Our product turns in the marketplace, our product turns on the floor, and they need our product and this will work its way through the cycle that it usually does. But going through this in a position of strength, taking share and having strong POS is a much different feeling that it's been, years ago.

**Tom Waldron**

Yeah, I'll jump in here, Bob. When you think about brands that do well with consumers get a little bit more real estate and getting to your question in terms of the back half of next year, both brands have really resonated with consumers as evidenced by the POS, and the investments we're making in those brands are certainly pulling through. And we've got some nice distribution gains whether it be an outdoor and shirts because the consumers are voting for the brand, and we're really excited about that.

We also talked about the relaunch at a major U.S. retailer. That is important for us, but it's not actually the big part of the new distribution gains; that's something that's going to pay

dividends over the next three or four years. But we're really excited about how our brands are resonating with consumers. Chris.

**Chris Waldeck**

Good morning, Bob. It's Chris. I'll just talk a little bit about Lee, specifically. Coming into '24, Lee posted some really strong market share gains in the back half of '23, both in units and dollars. We have a lot of momentum with the consumer right now. Our product is resonating with them. Because of the success we had in the back half of '23, it's really opened up new incremental space gains for Lee in the back half of this year.

I talked about our new innovation launches around Lee-X; that will gain a space. But also, candidly, we're seeing it in our core and specifically around our female products, and that's really got me excited. So, I feel confident about the incremental space that we've gained, the momentum we have with the consumer and looking forward to '24.

**Bob Drbul**

Great. Thank you.

**Operator**

Our next question comes from Jim Duffy with Stifel. Please proceed.

**Jim Duffy**

Hello, good morning. Thanks for the insights. Thanks for taking my question. I want to start on the outlook. Guys, we never like to see the guide second half weighted. Appreciate you have some new shelf space. I'm just hoping you can speak more about the visibility around some of those key assumptions underwriting the guidance. What's the message from retailers who've been de-stocking? What's the outlook for seasonal product, as you get into the second half? And then, what's your confidence in the improvement in declines in the second quarter and the assumption for acceleration into the second half?

**Joe Alkire**

Hey, good morning, Jim. I'll start. It's Joe. I would say, look, just from a posture standpoint, we're planning the business conservatively. We're sitting in February amidst an uncertain environment. And so, the outlook we've put forward, we're being prudent. But we've got modest top-line growth reflected in the outlook, strong gross margin expansion and operating earnings growth, strong cash generation and returns on capital.

There's nothing built into the outlook from either Project Jeanius or additional capital allocation choices. I think that's a layer of optionality to the outlook that's not reflected, at least initially.

I'd say from a revenue standpoint, we've got good visibility into the first quarter, and the revenue improvement for the balance of the year is really largely driven by the new programs and distribution gains, D2C in China. We haven't assumed a meaningful change in either POS or

inventory levels and in the core business, which could be an opportunity, but we expect retailers to remain cautious, at least in the near-term.

On the profit side, we've got high confidence in the gross margin, as I alluded to. The expansion is first half loaded. We've got good visibility into the input costs, pricing and mix. We think we've been prudent with regard to the pricing and promo assumptions in the plan. And inventory is in good shape. And we took some actions on the supply chain front that'll drive costs lower. And look, beginning in the second quarter, we see double-digit operating earnings growth, and that fundamental profile will just further strengthen as we get to the back half of the year.

**Jim Duffy**

Thank you. Yeah, certainly a bullish tone on the call around the current state of the brands, new initiatives, growth opportunities. With that, I'm curious how you're thinking about capital allocations. You have the new \$300 million repurchase authorization. Just give us a sense of how you're thinking about putting that to work?

**Scott Baxter**

Sure. Jim, this is Scott. And then, I'll go ahead and kick it over to Joe, but I'll kick it off. We said it before, we're really in an enviable position. We can do multiple things at the same time; you've seen us do that. We raised our dividend. We're buying back stock. We put in a new stock buyback program of \$300 million. We're in a great place from a debt ratio standpoint.

And if we want to make an acquisition, we can. I want to make sure that everyone's aware that from an M&A standpoint, we will not surprise you. So, our fundamental position is that we're going to do something that makes a lot of sense from us from a financial standpoint, from a brand standpoint, and from a culture standpoint. We kind of look at it from those three lenses.

And we also are very keenly aware if we want to pay the right price for the right type of acquisition. So, if that happens to come along, we'll make sure we go ahead and do that. And it'll be accretive to all of us and all of our stakeholders.

But right now, we feel like we're in a really good position. A lot of folks are in a little different position than we are, but we have improving fundamentals going into the second half, already from a really strong foundation, currently. So, I feel really good about what we're doing, and we're being really smart, Jim.

And Project Jeanius is only going to help this in a significant way. In my career, I've been involved in a lot of really big, really strategic projects, some cost-cutting projects. But I've got more energy around this project to differentiate us from everyone else in our sector in a very significant way, going forward. This is the real deal, and I'm really excited about it for the organization. Joe, anything you'd like to add?

**Joe Alkire**

Yeah, Jim, maybe just a couple other points. From a priority standpoint, the priorities are unchanged. We're going to prioritize reinvesting in the business. We've got a strong commitment to the dividend and growing the dividend. Over time, the balance sheet is strong. We've got a lot of dry powder.

And look, with the \$300 million share repurchase the Board just approved in December, we've got over \$325 million cash we expect to generate this year, and the leverage is low. So, we'll remain disciplined here, but we would expect to put more capital to work, as we move through 2024.

**Jim Duffy**

Thank you, guys. Appreciate it.

**Operator**

The next question comes from Brooke Roach with Goldman Sachs. Please proceed.

**Brooke Roach**

Good morning and thank you for taking our question. I was hoping you could elaborate on your outlook for pricing and promo this year. I think you mentioned that you were planning this, prudently. How are you thinking about the opportunity for AUR across your various brands and channels this year, particularly in the U.S. market? Do you think that price reductions are needed in any of your key U.S. wholesale channels to maintain the level of market share growth that you're currently experiencing, relative to your competitors? Thank you.

**Joe Alkire**

Yeah. Hey, Brooke, it's Joe. I'll tee this up from a financial perspective, and then, Scott, Tom, Chris can jump in here. Yeah, so from a pricing standpoint, we have assumed that we take prices back a little bit here in 2024. It's less than or about a point on the top-line, less than a point on the gross margin side. So, that is in the guide. From a promotional standpoint, we have assumed that the environment is a little more promotional, '24 versus '23. That could be conservative, but we'll see how that evolves.

**Tom Waldron**

Yeah, I'll jump in here. I mean, we're always really strategic about how we think about our pricing. There are areas that, from an elasticity standpoint, if prices are coming down, that's all built in, we've had taking some pricing actions, not major. And that's really an assessment to how the brand is resonating with the consumer from a pricing power standpoint. So, we feel really well set up for 2024 from a pricing standpoint. Chris, anything else do you want to add?

**Chris Waldeck**

Well, I think the only thing I would add, Brooke, for you, just as we think about our international markets, China, as that market starts to open back up and develop, we feel very

bullish about that, long-term, but we're taking a conservative approach right now and like we are in the U.S., where we understand the sensitivity with the consumer and we're responding, accordingly. And that same goes for Europe for us and our business there and how we think about our brand. So, it's something that we look at, we are very surgical and how we think about price, and we want to make sure that we're competitive in the marketplace.

**Scott Baxter**

I'll just add one thing, Brooke, we've got really good innovation in our pipeline right now from both brands across the globe. And that'll give us some pricing power going forward, which I'm really, really excited for this group to get a chance to see here over the next 12 to 18 months.

**Brooke Roach**

Great. Thanks so much. And then just to follow-up for Joe, there's a lot of moving pieces in the gross margin guide. Understood where the structural benefits are and the visibility in the first half. But can you help us with the rough sizing of some of those buckets, given the puts and takes and where we should be thinking about opportunity for gross margin outperformance, should the environment get a little bit stronger?

**Joe Alkire**

Yeah. Sure, Brooke, I appreciate the question, given all the moving parts. So, for Q4, excluding the out-of-period duty charge, gross margin improved about 230 basis points. I would say, X the inventory actions that we took, the gross margin expansion of close to 300 was really in line with our expectations. So, no surprises.

The drivers there really in equal parts here pricing mix and lower input costs, which have now flipped to a tailwind, as we head into 2024.

For 2024 specifically, we said 170 to 190 basis points off of a '23 base that excludes the out-of-period duty charge. That'll be front-half loaded. The majority of that increase will be driven by lower input costs and mix. And then we have a bit of an offset from pricing and promo.

**Brooke Roach**

Thanks so much. I'll pass it on.

**Operator**

The next question comes from David Paul Kearney with Barclays. Please proceed.

**Paul Kearney**

Thanks. Paul Kearney from Barclays. You mentioned some changes in the international business, simplifying the go-to-market strategy, refining the brick-and-mortar strategy. Can you go into what some of those components of those changes are from the prior? Thanks.

**Chris Waldeck**

Hey, Paul, it's Chris. I'll take this one. Just starting with Asia and specific around our China business, we're taking a measured approach, as the economy gains momentum. But we do have a bullish long-term view on China. Our inventory levels are back at normal levels where they should be. Growth in '24 for us is really coming from some conservative comps, some new partner door expansion, but really this investment we have in refreshing our fleet over the next two years. We'll start to see that paying-off force in the second half of this year, and we're super excited about that. I think that's really going to set us up for long-term growth.

In Europe, we're optimistic about the opportunity there for our brands. Again, just with the macro-economic situation there, we're taking a conservative approach. Scott talked about it, and I'll just reinforce it. But Project Jeanius is really going to be an unlock for us in this region. And what it's going to do is allow us to realign our business model there into a true pan-European structure. That's going to simplify things, but also open up markets that we don't have exposure to today.

#### **Operator**

Our next question comes from Mauricio Serna with UBS. Please proceed.

#### **Mauricio Serna**

Great. Good morning and thanks for taking our questions. I guess, I just wanted to hear a little bit more about what you guys are doing on Lee with the innovation and newness that seems to be really helping the brand. And maybe if you could talk a little bit about the performance in Q4, where you were mentioning that the retailers' cautiousness kind of like drove a revenue shortfall. Could you maybe provide a little bit more detail on what channels have you seen that more of that cautious being more pronounced, I guess.

And maybe on the upcoming relaunch of denim at a major national retailer, any insights on like what channel are we seeing that revenue coming through, like I guess like any channel, like what channel, what kind of retailer are we talking about just to understand like where we would see that exposure seeing coming through? Thank you.

#### **Chris Waldeck**

Hey Mauricio, this is Chris. I'll kick it off and thank you; I, too, am also super excited about Lee-X and just really we're going to raise the bar, as you think about comfort and stretch in denim. But we shouldn't just think about Lee-X's Denim. It's really a platform for us, an innovation platform for us. So, we're going to expand across our global markets. Denim 12 woven tops, we talk a lot about we need to expand categories, and this is really going to help us do that.

Now, the other thing about X is that it's really targeted for that younger consumer. It's targeted at a price point and elevate a price point from where we are today, but still in that sweet spot, and I'm super excited about that, and how we're going to get that moving here at the back half of '24.

Let me toss it over to, Tom, and let him talk to you a little bit about just the channel part of it.

**Tom Waldron**

Yeah, I mean, generally -- one of your questions is like the retailer pullback and conservatives in ordering like that, that was really across the board. There wasn't one sector that that was tied to, it was really all retailers out there, and I think all consumers are feeling a bit pinched right now and the conservatism is broad-based.

In terms of the new denim distribution, we don't really comment on which particular retailer from a strategy standpoint, but what I will tell you it is a reflection of our POS, our strong market share gains, and that retailer looking at that data and understanding that they can't operate in this environment without Wrangler. I mean at the end of the day, Wrangler is one of the big three brands out in the U.S. and they need us, and the consumers are asking for it. So, we're excited about that in terms of the back half. But what I'm more excited about is how this has a multi-year growth opportunity to it.

**Mauricio Serna**

Got it. Thank you very much.

**Operator**

The next question comes from Will Gaertner with Wells Fargo. Please proceed.

**Will Gaertner**

Hey, guys, thanks for taking my question. First, just on China, I mean, it's been strong this quarter. How do you see the growth going forward, and what are you seeing on the ground there? And can you just remind us how big China is now for you guys?

**Chris Waldeck**

Hey, Will, it's Chris. I'll take that one for you. The Chinese economy is as well documented all across. It's been opened. It's been closed. It's been opened--and, I think, while everyone was optimistic about the opening in 2023, we saw that it's still pretty choppy for that Chinese consumer and the challenges are there. Again, we're really bullish about that market.

I think what's super encouraging is just the investment that we're making in that market behind our retail stores over the next two years is really going to be impactful. There's a lot of those stores that we, frankly, haven't touched for a few years.

And to get in to refresh those stores and to really excite the consumer and also to give us a really a solid platform for these innovations that we have coming to the market and bringing those to life for the consumer in a really powerful way, I think it's going to be a huge unlock for us. So, excited about the long-term proposition with China, and our business will continue to grow there, as that economy gains momentum, which we all know that it will.

**Will Gaertner**

That's great. And, Joe, maybe for you, inventory. So, sounds like you guys are going to continue to cut inventory. Is that going to be, I guess, what is your expectation of when you're going to be in a clean inventory position? And the cuts that you're talking about in the first quarter, is that going to pressure gross margin?

**Joe Alkire**

Yeah, so everything we have contemplated from an inventory standpoint is captured in the gross margin outlook we gave for 2024. We've clearly made a lot of progress on the inventory over the last year. The teams have worked really, really hard. But exiting 2024, we still have about 130 days of forward inventory.

And we would say, normal for us is plus or minus 100 days. So, we're not there yet, we still have work to do. We're really confident in the glide path, but as we continue to optimize the inventory and work that down to what would be more steady state, that's going to continue to contribute to the cash generation of the business, along with the profitability improvement.

**Will Gaertner**

Great. I'll pass it on. Thank you.

**Operator**

Thank you. At this time, I would like to turn the floor back over to Scott Baxter for closing comments.

**Scott Baxter**

Just a quick thank you to everyone for participating on the call today. We'll look forward to reaching out and speaking with you again here upcoming after the first quarter. Have a great day and a great week. Thanks again, everyone. Take care.

**Operator**

This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation. Have a great day.