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Columbia Sportswear Co. *(COLM)*

Q1 2012 Earnings Call

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Thomas B. Cusick
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MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Columbia Sportswear First Quarter 2012 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ron Parham, Senior Director of Investor Relations and Corporate Communications for Columbia Sportswear. Thank you, Mr. Parham. You may begin.

Ron Parham
Senior Director-Investor Relations, Columbia Sportswear Co.

All right. Thanks, Bob. Good afternoon and thanks, everyone, for joining us. Earlier this afternoon, we issued a press release announcing first quarter financial results and updating our outlook for 2012. In addition to the press release, we've posted a detailed CFO commentary to our "Investor Relations" website about 45 minutes ago which we trust you've had a chance to review.

With me today on the call are President and CEO, Tim Boyle; Senior Vice President and Chief Financial Officer, Tom Cusick; Executive Vice President and Chief Operating Officer, Bryan Timm; and Senior Vice President and General Counsel, Peter Bragdon.

I'm going to ask our Chairman, Gert Boyle, to cover the Safe Harbor language.

Gertrude Boyle

Chairman, Columbia Sportswear Co.

Good afternoon. This conference call will contain forward-looking statements regarding Columbia's business opportunities and anticipated results of operation.

Please bear in mind that forward-looking information is subject to many risks and uncertainties and actual results may differ materially from what is projected. Many of these risks and uncertainties are described in Columbia's Annual Report on Form 10-K for the year ending December 31, 2011 and subsequent filing with the SEC.

Forward-looking statements in this conference call are based on our current expectations and beliefs, and we do not undertake any duty to update any of the forward-looking statements after the date of this conference call to conform the forward-looking statement to actual results or change in our expectations.

Ron Parham

Senior Director-Investor Relations, Columbia Sportswear Co.

Thanks, Gert. We're going to move right into our prepared remarks. So I'll turn the call over to Tim.

Timothy P. Boyle

President, Chief Executive Officer & Director, Columbia Sportswear Co.

Thanks, Ron. Welcome, everyone, and thanks for joining us this afternoon. The results and updated outlook we announced earlier today reflect a continuation of the market dynamics that we discussed in detail in early February.

Our wholesale markets in North America and Europe continued to work their way back towards equilibrium in the aftermath of the warmest winter in decades, with Europe's recovery further hampered by an ongoing debt crisis and macroeconomic weakness. Meanwhile, our direct-to-consumer businesses continued to generate growth, suggesting that consumer demand for our brands remain strong.

Outdoor consumers are reacting positively, where we have the greatest control over the presentation and availability of our innovations and marketing messages. Markets served by our EMEA and LAAP distributors, who essentially operate direct-to-consumer businesses in their respective markets, also continued to generate growth in the first quarter after allowing for the shift in timing of shipments of spring 2012 advance orders.

We expect continued growth in these markets based on the advance orders placed for fall 2012. As we advised in February, we are no longer providing specific backlog figures at March 31 or September 30. Our seasonal advance orders continue to represent a single component, which together with a number of other important factors comprise our quarterly and annual financial outlook.

I do, however, want to provide color on a few underlying market dynamics reflected in our 2012 outlook. We are projecting global fall wholesale shipments below last year by low single-digit percentage, with apparel up slightly and footwear down high single-digits, primarily due to the impact of warm weather on the Sorel business.

U.S. wholesale shipments are projected to be comparable to fall 2011, despite the warm winter and indications from many of our U.S. wholesale customers that their fall 2012 open-to-buy plans were down 10% to 20%, suggesting that we're gaining share on a relative basis.

Shipments to the LAAP region are expected to be strong, driven by the Columbia brand in China, Japan and Latin America. As anticipated, wholesale shipments to the EMEA region are projected down, reflecting the warm winter and the economic challenges mentioned earlier. Canada shipments are also expected to be down, reflecting a combination of the warm winter and continued retail consolidation.

From a global brand perspective, fall 2012 shipments of Columbia and Mountain Hardwear are expected to be comparable to fall of 2011. After growing rapidly over the past two years, fall 2012 shipments of Sorel are expected to be down. Keep in mind that among our three brands, Sorel has, by far, the toughest year-over-year comparison against the 68% growth achieved in 2011.

Sorel is also the most cold-weather-dependent and, accordingly, has been the most severely impacted by the warm weather. Our Sorel retail partners assure us that the brand remains very strong among its target consumers, and they expect growth to resume once channel inventory imbalances have been resolved.

As we discussed last quarter, there are a significant number of variables that are taken into consideration in providing our financial outlook. With all the moving parts, we believe providing quarterly outlook is a more relevant, reliable and understandable way to communicate with investors.

The variable that we do have the most control over in 2012 is our own spending discipline. During the first quarter, we demonstrated our ability to make difficult, but necessary, reductions to contain spending growth to a rate comparable to our anticipated full year sales growth. We are committed to managing spending over the remainder of the year to meet our profitability targets.

We also remain committed to the ongoing repositioning of our brands and our long-term goal of improving profitability through a combination of product innovation, enhanced design and effective marketing to drive topline growth.

Improved inventory and supply chain management to enhance gross margins, and discipline investment behind strategic initiatives that will support continued growth and improve our operational efficiencies. It's important to remember that we have generated almost $450 million in topline sales growth over the last two years, which has allowed us to invest behind those strategies.

Our investment in innovation has helped us grow. We have additional innovations in our pipeline that extend through 2015, which we believe will maintain our leadership position for keeping consumers warm, dry, cool and protected.

With Omni-Heat firmly established as a leading warmth technology, our innovation pipeline for 2013 features new visible cooling technologies that will be offered in both our Columbia and Mountain Hardwear brands. We've invested in a robust direct-to-consumer business that accounted for approximately 25% of our 2011 annual sales, including a global e-commerce platform that has allowed us to educate and inspire consumers about our innovations.

In addition, the outlet store component of our direct-to-consumer business has allowed us to preserve gross margins during a volatile and challenging business environment. As you know, we're in the early stages of transforming our global supply chain process and implementing a new ERP system that will help us support the significant growth opportunities.

We had a successful SAP go-live in Canada in April. Keep in mind that Canada is our smallest region but the smooth implementation gives us a boost of confidence as we turn our attention to the U.S. implementation which we currently believe will go live in the first half of 2013. The U.S. is obviously the largest market and where we expect to realize the largest return from this implementation.

Regardless of the weather, we remain intently focused on driving innovation, transforming our supply chain and ERP platform, managing inventory and expenses, and above all else nurturing deep emotional connections with consumers to strengthen the year-round presence of our brands and drive long-term growth.

That concludes my prepared remarks. I would be happy to open to questions. Operator, can you help us?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Bob Drbul with Barclays Capital. Please proceed with your question.

Bob Scott Drbul
Analyst, Barclays Capital, Inc.

Q

Hi, good afternoon.

A

Good afternoon, Bob.

A

Hi, Bob.

Bob Scott Drbul
Analyst, Barclays Capital, Inc.

Q

Tim, I guess when you look at the, I guess, the outlook for the year, you know, sort of the lingering effects from the weather, when you look at the closeout sales on your inventory side, can you just talk a little bit like how you're managing the closeout sales in sort of to protect the brand and sort of how methodical you're being around making sure that in the placement of that product, you know, doesn't hurt, you know, on the development that you've had over the last few years with the Columbia brand specifically?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Yeah, certainly. Well, as you know, we've invested heavily in the direct-to-consumer outlet business and we have a significant component of this residual going directly to our outlet store where we can control it. But there is some inventory that we're selling through the value channel [ph] left (9:57) of a larger component actually between the combined Columbia outlet business and our regular wholesaler customers have been absorbing this stuff. So we're pleased that the business, that we can control it in this way and get higher margins and frankly we'll be able to realize a greater amount of profitability through that direction. We're not going to be directing this merchandise in areas where we think it will hurt the brand.

Thomas B. Cusick
Chief Financial Officer, Treasurer & VP, Columbia Sportswear Co. A

And, Bob, this is Tom, maybe just a little more detail on that. About two-thirds to three-quarters of that excess will actually go through our own direct-to-consumer channel.

Bob Scott Drbul
Analyst, Barclays Capital, Inc. Q

Got it. And so of the -- was it 21% increase year-over-year? How much of that is actually closeout roughly? Did you give that number?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co. A

We didn't, and I don't have that number at my fingertips, but we will certainly sell a higher percentage of excess as opposed to the special make-ups through our retail channel this year as compared to last.

Bob Scott Drbul
Analyst, Barclays Capital, Inc. Q

Okay. And then, Tim, from the perspective of, I guess, developments over the last few months, it's still time, you know, have you had cancellations of some of the fall orders, and have you been able to effect some of the sort of the 12 order book in terms of with your factory partners?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co. A

No, no, you know, the cancellations are not significant, are not outside the ordinary course of business. You have to remember, maybe from our prior discussions regarding 2012, a big portion of our retailers' liquidations of inventories happens in the first quarter of the year. January, February, are great outerwear and cold weather footwear months. And we just have no liquidations on those months from our retailers and so our order book was – it didn't come up to its full expectations based on those lack of liquidations.

Bob Scott Drbul
Analyst, Barclays Capital, Inc. Q

Okay. And then here's the other question that I have: On Sorel in terms of the fall 2012 positioning, when you think about what's happening competitively, can you just elaborate a little bit more in terms of with the order book as it stands right now? Are you surprised that it isn't stronger, given the strong year for last year? Or maybe just a little bit more feedback that you've received from retailers on that order book in considering, I think you said it was going to be flattish, right?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co. A

Yes, so, the Sorel brand I think is much more true performance footwear for women and men, than many of our competitors where there is a higher reliance on fashion. So the expectation would be that warmer weather would impact us more. So we feel very strong about the Sorel brand. We've got lots and lots of compliments, and we have lots of evidence that it really is a weather issue, including our own sales to our own e-comm unit in days when weather was present and days when it wasn't. So we've got -- we have a very high reliance on that brand and we expect that we will continue to grow. I think there's evidence that there is lots and lots of growth for this brand that we have not yet realized.

Bob Scott Drbul
Analyst, Barclays Capital, Inc.

Q

Great. Thanks very much.

A

Yes.

Operator: Thank you. Our next question comes from the line of Robby Ohmes. Please proceed with your question.

Robert F. Ohmes
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Thanks. Afternoon, guys.

A

Hey, Robby.

A

Hi Robby.

Robert F. Ohmes
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Hey Tim, just to follow up on Bob's line of questioning, can you sort of continue on the winter theme and remind us how this plays out on a multi-year basis? So, obviously, last year was tough and order books are going to be tough for a lot of your competitors as well, but how do you think this plays out at retail in 2012, and then in order books in 2013 for you guys? That would be the first question.

The second question is, can you talk about within the Columbia brand what the relative impact has been on the growth of Omni-Heat versus initial expectations, and new technology, say, versus your sportswear distribution and your more moderate channel distribution, and does this accelerate the shifting of your business towards, you know, the more technology driven higher price point product? And that would be, you know, well, I'll start with that. Thanks.

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

You gave me plenty to work on, Robby. As it relates to fall 2012 and fall 2013, I mean, it's really too early to predict where that's going to go and we obviously haven't made any comments about 2013 at all. But in my experience over the years that I've been in the business, you know, retailers gain confidence and are more conservative depending on the sales of weather-dependent products they have got in the store. So, obviously, fall 2011 is tough, both for footwear -- winter footwear and winter outerwear and winter accessories. So retailers are not abandoning those product categories but are more conservative in terms of how they approach it. So the expectation on future seasons would be, you know, as a result of the weather that's actually happens in fall 2012.

You know, when we talk about the Columbia brand and Omni-Heat, frankly, it's the single biggest differentiator for us from all of our competitors. We think it's got significant opportunity for the company to continue to expand and reenergize the outerwear categories and accessory categories that we have been frankly – we've lost share to competitors over the past several years. These have been products which have been well established by our retailers, and the new product category of base layer was very successful, especially when you contrast it with a bad weather year for all kinds of specific weather categories, weather-dependent categories.

Our sportswear business, frankly, continues to do well. You know, there are challenges in that business, as well, but we believe that we've got the right approach with the innovations that we have in place. We mentioned just quickly during my script this upcoming innovation in our -- an extension of our Omni-Freeze product for spring 2013. While we haven't talked much about it, except to a few retailers, this is going to be the first visible technology which will basically offer us the ability to replicate the visibility and success of Omni-Heat in an area where there is lots and lots of opportunity for high volume sales.

All of these innovations are more difficult to explain to the consumer and require investment, not only on our part but also on our retailers' part to give us the space and the point of sale presentations that we need to make them successful. And we have gotten that help from retailers with Omni-Heat, we expect we'll get it with the new Omni-Freeze collection, and it's more difficult for these kinds of products to be successful in the moderate channel. So the expectation is that in those channels we'll be relying on the brand more, but, you know, the focus is going to be on these innovations going into the -- into areas where we have the opportunity to have salespeople on the floor and a more focused brand presentation.

Robert F. Ohmes
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Thanks. And could I just put one more question in there; on Europe, can you just give us a little more color on how much of weakness and backlog is the sort of warm winter they had versus issues with the macro environment? And also can you sort of characterize, how is Russia doing as a market for you guys versus Western Europe, and maybe just get a better flavor of what's going on over there?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Sure. Well, in our experience over the years we have been in the business, weather always trumps economics. So we've had very tough winter over there weather-wise, and then when you combine it with the rough economic conditions, and it's -- it makes it more difficult. So Western Europe in our direct markets, we have some successes geographically, but all in all it's been the toughest geographic territory that we work. Russia, on the other hand, had good weather and, in that market our distributor controls the bulk of its distribution, and they have done very well. So our business there is strong and is growing. So the expectation is we need to continue to work on our European business to make sure that we've got the right merchandise there. But it's -- it's a weather thing, in my opinion.

Robert F. Ohmes
Analyst, Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Got it. Thanks, Tim.

Operator: Thank you. Our next question comes from the line of Liz Dunn. Please proceed with your question.

Liz Dunn
Analyst, Macquarie Capital (USA), Inc.

Q

Hi. I guess just a couple of questions, a couple of more questions on the inventory. Can you talk about the composition of the inventory between footwear and outerwear in terms of the carryover product? And how does the closeout process work for Sorel, like is it similar to outerwear, or since you're dealing with sort of a different retail group might that product end up in sort of a more traditional off-price channel, or how should we think about that?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Well, let me ask Tom to talk specifically about the composition. But before I do that let me just tell you that the bulk of our footwear sales go, in terms of off-price – excuse me -- go to our own -- our own outlet business as well as traditional retailers of footwear. So that's the primary disposition of the footwear excesses for Columbia. Again, it's by far the largest component is our own outlet business. But I'll let Tom speak specifically to the composition of the inventories.

Thomas B. Cusick
Chief Financial Officer, Treasurer & VP, Columbia Sportswear Co.

A

Yeah, Liz, [ph] we've focused (20:45) mostly on the age of the inventory and secondarily the categorical breakdown, and I don't have that -- the outerwear cold weather footwear breakout in front of me, but that is the lion's share of the fall 2011 component of the excess would be both of those categories. And as I've mentioned earlier, we intend to distribute roughly two-thirds to three-quarters of that through our own retail. And if we look at the age of our inventory, roughly 85%, a little over 85% of the total inventory composition is fall 2011 through fall 2012, so it's quite current inventory.

Liz Dunn
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. But no -- no fall versus spring breakdown at this point? [indiscernible] (21:31) Maybe off-line. Okay. And then can you just talk through what the expectations for kind of return on the systems implementations are, and over what time period?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Well, you can go ahead, Tom.

Thomas B. Cusick
Chief Financial Officer, Treasurer & VP, Columbia Sportswear Co.

A

Yeah, we haven't -- we haven't published a return on the investment or the total investment. We're, you know, we're probably in about the third inning on the system implementation itself. We just went live with the first country being Canada, with the second implementation being next year. So, I think it's probably a little bit too early to discuss return on that investment.

Liz Dunn
Analyst, Macquarie Capital (USA), Inc.

Q

Okay. Thank you. Good luck.

A

Thanks.

Operator: Thank you. Our next question comes from the line of Kate McShane. Please proceed with your question.

Katharine McShane
Analyst, Citigroup Global Markets (United States)

Q

Thanks, good afternoon.

A

Hi, Kate.

Katharine McShane
Analyst, Citigroup Global Markets (United States)

Q

I was wondering if you could help us understand the composition of your orders for this upcoming winter. Are you seeing more orders of fleece and shells, which I think still falls into your sportswear category, versus the heavier ski jackets because of the previous winter that we just went through? And does that still have much to do with any kind of margin pressure that we can expect to see this year because of mix?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Well, so, shells of any type would be in our outerwear category. So that's typically for us rainwear and soft shells, et cetera. Fleece does fall into the sportswear category. There is some mix-shift, but I would say it's not outside the normal shift, a mix between those two components that we've had in prior seasons, so we have the bulk of our Omni-Heat is in the outdoor category and accessories, so to the extent that helps.

Katharine McShane
Analyst, Citigroup Global Markets (United States)

Q

Okay. Thank you. And the previous question on the international component of your business, and how much was weather and how much was economic related; I wondered if you had any comments just about what you've seen in terms of inventory levels at those retailers, and just about the overall health of some of the bigger retailers in the international markets?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Yeah, I think we talked specifically about our European direct business which is primarily Western Europe, and I think there is inventory – I know that we – our largest customer in Europe, which is the Intersport Collective Organization actually sent letters out to their vendors saying that based on their inventory carry-forward their business was going to be down across the board.

I think those retailers – that's a buying group, so each individual retailer is responsible for their own credit. However, in order to maintain a position in the group they have to – they have to maintain certain balance sheet measurements. So we feel comfortable about the strength of those retailers. We're very diligent at credit extension, whether it be here in the U.S., in Japan, Canada, or Europe. That's one of the areas where we consider ourselves to be quite adept. So our traditional retailers, I think in Europe, are strong although they're managing their open-to-buys to maintain the proper inventory levels. So they were very conservative this year.

Katharine McShane
Analyst, Citigroup Global Markets (United States)

Q

Okay. Great. And then my last question was also in regards to inventory; are you giving any guidance today about what you expect, or where you expect inventory levels to be, by the end of next quarter? How much you can work down between now and then?

Thomas B. Cusick
Chief Financial Officer, Treasurer & VP, Columbia Sportswear Co.

A

Yeah, Kate, this is Tom. In my commentary I had indicated that exiting Q2 we expected relative inventory growth to be comparable to where we were exiting Q1, at just over 20% growth. And then as we look to the back half of the year, we expect inventory levels to be comparable exiting Q3 and exiting Q4 relative to last year in absolute dollar terms.

Katharine McShane
Analyst, Citigroup Global Markets (United States)

Q

Okay. That's great. Thank you for that.

Operator: Thank you. Our next question comes from the line of Reed Anderson with Northland Securities, please proceed.

Reed A. Anderson
Director of Research, Northland Securities, Inc.

Q

Good afternoon, thanks for taking my questions.

A

You bet Reed.

Reed A. Anderson
Director of Research, Northland Securities, Inc.

Q

Hi. Couple of things I wanted to focus on. One is, Tim, I think in your prepared remarks you had made a comment about expectations for wholesale fall, I think it was the U.S. or North America being comparable to 2011. And first of all, I'm going to clarify that is what you said, but then I guess in relation to that, you made a comment I think that you're picking up share, that sort of thing. I guess I wanted you to add a little more color to that, and what is your sense of, in what categories, what channels do you see that most prominently? I think we've all seen your product evolve quite a bit on sales floors, but I would be curious what you see from your end that kind of supports that.

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Well thanks, Reed. So, yeah, we did talk about the fact that our U.S. book would be – our U.S. shipments, wholesale shipments would be comparable to fall 2011. And many of our customers, in fact our largest customers have told us that they are open- to-buy plans were down between 10% and 20%, so we're gaining share, and where we've been focusing as you know, recently has been on the sporting goods and specialty channel, and that's where we have been rewarded with – with bigger orders than would be indicated in the 10% to 20% down on an overall basis.

So that's been primarily where we have been gaining share. And I think there is probably been some – some of our business we've gotten from private label, some we've gotten from other brands, and some has just been a function of categories of merchandise that we've entered a base layer that has been showing real promise, but not necessarily the sell-through volumes that we all want to see primarily because of weather. So that's I guess where I would say we have been really working diligently and had rewards that we think are better than our competitors.

Reed A. Anderson Q
Director of Research, Northland Securities, Inc.

And would you say in terms of your categories the gains are fairly even, or are you seeing it more in particular product – obviously base would be a new addition. But any color respective to categories, whether its footwear apparel or within apparel.

Timothy P. Boyle A
President, Chief Executive Officer & Director, Columbia Sportswear Co.

Well I think we are making progress on all those things, obviously with a flat order book, even though it's in a down market, we're not happy with the kinds of growth that we've got there. But it shows that the retailers are giving us additional business, and it's in primarily in the outerwear and winter footwear business where we've really done well, I think, in the Columbia business.

Reed A. Anderson Q
Director of Research, Northland Securities, Inc.

And then my second question was just, I wanted to focus on the direct side, because obviously it's become a very significant driver. And I was hoping you'd may be just share a little more detail behind what drives that and kind of give us a sense of when you think of that business growing, what is sort of a appropriate growth expectation, whether you want to do it on a high level or give it – by various sub detail, I don't know, but just a little more behind that because it's really evolved into a lot of different components and I think it is helpful to have that detail.

Timothy P. Boyle A
President, Chief Executive Officer & Director, Columbia Sportswear Co.

Great. Well, so we have really three ways that we do business direct to consumers. One is, obviously, through our brand stores, we've got about a half dozen of those things around the United States and several in Europe, and those are real – an opportunity for us to lay out our strategies, lay out our business, key business initiatives, and the innovations are fairly complex and need some space to be describing.

Those businesses have been very good for us in terms of brand enhancing. They're difficult to support from a profitability return basis, so we're being very selective on how we move forward in that area. From a financial return area, frankly our outlet business has been good, we've had – as you saw from the inventory analysis that Tom gave you, we've had too much excess. And so we've had good returns from those businesses, but we prefer that we have a slightly lower reliance on excess inventories from prior seasons, so we aren't – we can get a better turn and have less carryover.

And – but really the shining star for – in terms of the combination of financial rewards and brand enhancing has been our e-comm, where we can reach an enormous amount of people and really tell the stories of our innovations and our business goals, in a very rich way. People can spend as much time as they want on the site, and in this we've been rewarded by good selling of our products on those sites as well. So that's sort of the three components of retail. It's been a good part of our business, we always consider ourselves a retail – excuse me, a wholesaler at heart, and we've got a keen focus on making sure that our products resonate with retailers that carry our product, and that's been a key part of what we do.

But as our products become more complex, it's important that we have the opportunity to really show these things in their – fully blown. So the e-comm, just as a point of interest, we get about average conversion rates on our e-comm business, which means we have a lot of people, millions of people that are going to the site, and learning about the business, learning about the products, and then going on to other retailers to buy it.

Reed A. Anderson
Director of Research, Northland Securities, Inc.

Q

And in terms of – just thinking about that direct piece, is there a growth rate that makes sense as you look at that, whether it's on a multi-year basis? What – you'd like to see that growing, or anything you'd share with us would provide some perspective.

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

My preference would be to have our wholesale business grow so rapidly, regardless of what happens to direct-to-consumer we still grow our wholesale business. But, yeah, we make sure that we're challenging ourselves about opportunities. We don't want to miss anything. And so we have discussions constantly about how we should approach that part of the business, and there may well be more to talk about later.

Reed A. Anderson
Director of Research, Northland Securities, Inc.

Q

Okay. That's fine. I'll leave you with that. Thank you very much.

A

Thanks, Reed.

Operator: [Operator Instructions] Our next question comes from the line of Andrew Burns, with D.A. Davidson. Please proceed with your question.

Andrew S. Burns
Analyst, D. A. Davidson & Co.

Q

Hi, guys, I've got a longer-term question to start here. Just earlier in the comments you mentioned that you're performing best where you have the greatest control over presentation. And my question was around how you're working towards improving Columbia brand presentation in key channels such as specialty and sporting goods, whether it's investing in in-store fixtures, educating sales associates, getting the buyers to stock a less value oriented mix, what are the keys there to elevating the brand presentation at your key retailers? Thank you.

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.
A

Certainly. Well, so our – first and foremost for us is the product itself have the ability to tell the story. So as it relates to Omni-Heat, it's an immediate story that a consumer can – even with the poorest of in-store presentations, can open the garment and recognize what's going on there.

We hope that we have that with our new Omni-Freeze collection for spring 2013 where it will be visible much like Omni-Heat is. But in addition to those kinds of product-centric issues, we're doing a lot of QR codes attached to the garment, as well as to the fixture in the store.

We've got fixturing systems which we've installed with many of our retailers, and those have proven that they will – have a high return in terms of the – of the investment. And, you know, frankly, lastly, we just want to make sure that the returns that our retailers see from selling our product will allow us to move into a premium location in the store. So it's really a combination of having the right product, having it with attractive and high information quotient, point of purchase stuff and then having the sales results to move us forward in the store to a better location.

Andrew S. Burns
Analyst, D. A. Davidson & Co.
Q

Thank you. And I apologize if I missed this in -- so far here, but did you quantify the second quarter benefit from the timing of the distributor shipments?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.
A

No, we didn't. But with regard to that, as you may recall, we had a similar phenomena where we'd shipped spring 2012 distributor shipments a higher percentage in the fourth quarter and we'd indicated that that was a double-digit million-dollar number. It's a similar number between, in Q2 versus Q3 where we've got a higher proportion planned to ship in the second quarter of this year.

Andrew S. Burns
Analyst, D. A. Davidson & Co.
Q

Okay, thanks and good luck.

A

Thanks.

Operator: Thank you. Our next question comes from the line of Corbin Weyer with Robert W. Baird. Please proceed with your question.

Corbin Nicholas Weyer
Analyst, Robert W. Baird & Co. Equity Capital Markets
Q

Yes. Good afternoon. Thank you. This is Corbin Weyer calling in for Mitch Kummetz. Just wanted to get back to inventory quickly, look at the level to be comparable to last year, come year-end, third quarter, fourth quarter, maybe talk about how you think about balancing that with possibly the opportunity maybe to chase product in fourth quarter? Or just, you know, the fact that you are going up against some easier to compares, whether that's in cancellations, maybe easier comp given, given the tough challenging weather environment from last year?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Yes, I would say, with regards to fall 2012, I mean, we've pretty much bought the inventory for fall 2012 so our ability to chase additional inventory at this point is pretty difficult if not impossible. So, really when we look at the back half inventory it's really going to be a function of sell-through, weather, and then at year-end, a function of what the spring book looks like and the timing of receipts of spring 2013 inventory. So year-end is a little bit tougher to call but really for our ability to chase production for fall 2012, is not really a reality at this point.

Corbin Nicholas Weyer
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Sure, sure, okay. And then in just, you know, looking at, you know, helpful you have broken out the buckets for second quarter gross margin puts and takes, can you maybe just kind of talk about the magnitude of those different puts and takes?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

For which period?

Corbin Nicholas Weyer
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Second quarter 2012. I guess I'm just surprised looking at, you know, the closeouts being a drag, given the amount of closeouts that happened last year with some of the wetter weather in the spring.

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Yeah, I would say that the single biggest component of the planned 200 basis point contraction in the second quarter is the higher volume of promotional and closeout sales. Secondarily, we've got channel mix changes with the lower gross margin distributor business, so there will be a higher relative component of distributor shipments in Q2. And we plan to experience some cost, input costing pressure in those components are partially, slightly partially offset by currency and a little bit of air freight.

Corbin Nicholas Weyer
Analyst, Robert W. Baird & Co. Equity Capital Markets

Q

Helpful. That's all I got. I appreciate the time, guys, thank you.

Operator: Thank you. Our next question comes from the line of Sam Poser with Sterne Agee. Please proceed with your question.

Q

Hi. It's [ph] Ben Champion (38:53) for Sam Poser.

A

Hey, [ph] Ben (38:55).

Q

Question on Sorel; what is the sort of the latest you're seeing now in terms of getting the brand back to growth and sort of being able to see whether it was weather or brand related? Is there anything you can kind of update us on, the latest?

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

I mean the brand is, still remains very popular, but it is, obviously, designed to be worn in cold weather, and with lots of water and snow, et cetera. You know, the biggest impact we had on our sales volume was in Europe, as it relates to the Sorel business. So we have good healthy business in the U.S. and in North America. The primary area where we had issues was in Europe as it relates to Sorel. We're very high on the brand. We think there is an enormous opportunity to grow that business. We do need some weather.

Q

Got it. All right. Thank you.

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

A

Thanks.

Operator: Thank you. There are no further questions at this time, and I would like to turn the floor back to management for closing comments.

Timothy P. Boyle
President, Chief Executive Officer & Director, Columbia Sportswear Co.

Well, thank you all for tuning in and we're looking forward to talking to you again at the end of second quarter to report our results at that time. Thank you very much.

Operator: This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation.