PRESENTATION

Operator

Greetings, and welcome to the Columbia Sportswear Company Second Quarter 2017 Financial Results Conference Call. (Operator Instructions) As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Ron Parham, Senior Director of Investor Relations and Corporate Communications for Columbia Sportswear. Thank you, Mr. Parham. Please go ahead.

Ronald A. Parham, Columbia Sportswear Company - Senior Director of IR & Corporate Communications

All right. Thanks, Bob. Good afternoon. Thanks for joining us to discuss Columbia Sportswear Company's Second Quarter and First Half Financial Results and Updated 2017 Outlook.

In addition to the earnings release, we furnished an 8-K containing a detailed CFO commentary explaining our results and the assumptions behind our full year outlook. The CFO commentary is also available on our Investor Relations website.

With me today on the call are Chairman of the Board, Gert Boyle; President and Chief Executive Officer, Tim Boyle; Executive Vice President and Chief Operating Officer, Tom Cusick; Senior Vice President and Chief Financial Officer, Jim Swanson; and Executive Vice President and Chief Administrative Officer, Peter Bragdon.

Gert will start us off by covering the safe harbor reminder.

Gertrude Boyle, Columbia Sportswear Company - Chairman of the Board

Good afternoon. This conference call will contain forward-looking statements regarding Columbia's business opportunities and anticipated result 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 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 statement after the date of this conference call to conform the forward-looking statement to actual results or to change in our expectation.

Ronald A. Parham, Columbia Sportswear Company - Senior Director of IR & Corporate Communications

Thanks, Gert. And I'd also like to point out that during the call, we may reference constant currency net sales growth, which is a non-GAAP financial measure. A reconciliation of constant currency net sales to sales as reported under U.S. GAAP is included in the supplemental financial tables accompanying our earnings release, along with management's rationale for referencing this non-GAAP measure.

Following our prepared remarks, we'll host a Q&A period, during which we'll try to limit the call -- the questions to 2 per caller so we can get to everyone within the hour.

And I'll turn it over to Tim now.

Timothy P. Boyle, Columbia Sportswear Company - President, CEO & Director

Thanks, Ron. Welcome, everyone, and thanks for joining us this afternoon. We're pleased to report slightly better-than-expected second quarter and first half results and a midyear update to our 2017 outlook. As you've seen in our press release in the CFO commentary, we delivered a solid, on-plan first half featuring growth from 3 of our 4 brands and all 4 geographic regions.
Directly on pace with our full year outlook, consolidated sales grew 3% as reported and 4% in constant currency, while net income grew 4% to $24.5 million or $0.35 per diluted share. These results include a $5.2 million of expense related to the operating model assessment that we began in February, which equates to $3.3 million after-tax, or $0.05 per diluted share. Excluding these costs, first half net income grew 18%.

Before I discuss our results and outlook in more detail, I want to offer more context on the operating model assessment and provide a framework for the next phase of our project, which we launched in June. Over our long history, our company has encountered numerous episodes of structural change in its primary markets and has responded by assessing the situation and identifying new growth opportunities, then realigning resources and developing new capabilities to capitalize on those opportunities. As a result, we have successfully created what is today a multibrand, multichannel global business with solid financial foundation.

With the U.S. retail sector in a period of accelerating structural change, we launched a comprehensive assessment of our business to determine how to enhance our capabilities to drive future growth. We have embarked on a separate from a position of strength, including a current outlook that anticipates sales and earnings growth, and a very powerful balance sheet with more than $600 million in cash and no long-term debt. We want to assure that our organizational structure and resources are aligned to execute against our strategic plan to drive continued growth as a brand-led, consumer-first organization and to increase our investment in demand-creation activities and digital capabilities while continuing to drive sustainable, profitable growth.

This brand-led structure is designed to empower each brand president to lead their respective brand with improved clarity and strategy and direction around the product creation and market development across all regions and channels. Each brand president will work collaboratively with our regional general managers to identify and pursue profitable growth opportunities through brand-enhancing wholesale, direct-to-consumer and distributor channels, recognizing that each brand is at a different stage of its evolution and global penetration in every market.

To quickly review the senior leadership appointments that were announced in early June: Tom Cusick has stepped into the role of Executive Vice President and Chief Operating Officer; Peter Bragonzio added additional oversight of our international distributor business in the EMEA and LAAP regions to his continuing role as Executive Vice President and Chief Administrative Officer and General Counsel; Joe Boyle assumed the newly created position of Executive Vice President and Columbia Brand President; Franco Fogliato is relocating to Portland from our European headquarters in his new role as Executive Vice President and General Manager of our wholesale and direct-to-consumer channels in North America; Matthew Schegg was pronounced -- excuse me, was promoted to Vice President and General Manager of our European wholesale and direct-to-consumer business; and finally, Doug Morse has assumed the role of Senior Vice President of Emerging Brands and Asia Pacific, including oversight of our SOREL, prAna and Mountain Hardwear brands as well as our subsidiaries in Japan and Korea and our joint venture in China.

Since then, we announced 2 additional senior leadership appointments: Jim Swanston, a 14-year veteran who has led our strategic planning and FP&A team for the past several years, and has served as Vice President of Finance since 2015, was promoted to Senior Vice President and CFO; and finally, Peter Rauch, who, during his 10 years with the company, has served on the leadership teams of our EMEA region and our China joint venture and, most recently, as our Chief Accounting Officer, was appointed to the new role of Senior Vice President and Chief Transformation Officer to drive the changes that we are beginning to implement.

This newly aligned leadership team is now focused on the second phase of the operating model assessment project, which we have named Project CONNECT. The name stems from our corporate mission to connect active people with their passions, it reinforces the importance of connecting with consumers, connecting with our wholesale customers and international distributors with our manufacturing partners and with our employees around the globe as they serve the needs of consumers and customers through our portfolio of brands.

Project CONNECT is centered around our top 4 strategic priorities: one, drive brand awareness and sales growth in our wholesale and direct-to-consumer channels through increased, focused demand creation; two, enhance consumer experience and digital capabilities; three, expand and improve global direct-to-consumer channels with supporting processes and system; #4, invest in our people and optimize our organization across our portfolio of brands.

Project CONNECT will identify and advance initiatives to accelerate our performance against these strategic priorities by, first, intensifying our focus on the consumer. We recently conducted a thorough consumer insight study to clarify how consumers in major global markets perceive each of our brands. These insights are informing our product creation and marketing teams as they work to develop SKU-efficient product lines designed around features and functions that consumers value most. We are also better informed to develop demand creation initiatives that drive deeper emotional connections with consumers and create a consistent elevated consumer experience at every touch point across all channels.

Second, elevating our commercial management capabilities to drive growth. Today’s consumers are assessing our brands through a variety of channels. We pride ourselves on being one of the most trusted and reliable partners to our wholesale customers and international distributors, and going forward, we will continue to work strategically with our wholesale channel champions and our manufacturing partners to drive performance. In addition to our strong wholesale and international distributor relationships, today’s consumers also expect us to be just as excellent at engaging with them directly through digital platforms. A consistent growth we’re generating through e-commerce channels tells us we’re doing a lot of things right on this front but that we’re just getting started.

Going forward, our investments in optimizing our global e-commerce sites will play an even larger role in attracting consumers to each of our brands through every channel.

Third, building on our current strength as a high-performance organization. Project CONNECT will help empower and engage our teams to deliver even stronger results going forward through enhanced collaboration, teamwork and accountability. As a whole, Project CONNECT is creating more opportunities for our employees and ultimately improving our ability to innovate and adapt to changing market conditions.

And finally, increasing strategic investments needed to fuel our largest growth opportunities. Since the project’s launch, the leadership team has been working across the organization to identify our biggest growth opportunities and improve the efficiency and effectiveness of our day-to-day operations, streamlining wherever possible to free up resources to invest and enhance digital capabilities, product innovation and incremental demand creation.

Project CONNECT is an enormous undertaking to which the company is deeply committed. While much work remains, it will be in a position to share our expectations about incremental growth, cost efficiencies and investments. We intend to provide additional insights as we reach key gateways in the project.

Turning now to the financial results and updated outlook that we announced today. I'm going to focus my remarks on our first half
In the first half, the Columbia brand contributed 2% growth, led by high single-digit growth in our U.S. DTC business and by double-digit constant currency growth in the EMEA region featuring high-teens growth in our European wholesale and DTC business. LAAP distributor markets also contributed to Columbia brand growth through a combination of increased spring 2017 advance orders and favorable timing shifts that benefited the first half. Combined, those markets more than offset a high single-digit decline in Columbia brands, U.S. wholesale business, that stemmed primarily from customer bankruptcies, restructurings and liquidations.

In China, mid-single-digit first half sales growth in constant currency was driven by e-commerce channels, which offset a soft department store environment. On the operational front, I’m pleased to report that our China joint venture and our corporate teams collaborative -- collaborated on a successful ERP implementation during the second quarter and that all systems are stable as we enter the important fall and holiday season. The Columbia brand’s global fall marketing campaign will make extensive use of social, online and in-store platforms to highlight our lightweight warmth and waterproof technologies under the tagline Columbia Warm.

In addition, Columbia’s global Tested Tough promise enables our regional marketing teams to pursue creative marketing partnerships in key countries. We’ve previously highlighted Columbia’s title sponsorship of the UTMB endurance race, and our outerwear partnership with Manchester United as important brand-building initiatives centered in Europe that also have extensive global reach.

While these partnerships have helped drive growth in the Columbia brand’s European wholesale and direct-to-consumer business, the brand remains significantly underpenetrated in most European markets.

In order to begin unlocking that opportunity, in May, we announced the 5-year partnership in which Columbia will be the official outfitter of the U.K.’s national parks, a program that took its inspiration from our ongoing partnership with the U.S. National Parks Foundation that began in 2016 in conjunction with the National Park System’s centennial celebration. Beginning this fall, Columbia will provide a range of our TITANIUM performance products, including OutDry Extreme apparel and OutDry Extreme footwear to outfit 7,000 staff members and volunteers who work at the U.K.’s 15 national parks. As part of the partnership, they will test our products year-round in the UK’s challenging weather conditions and provide feedback. For the second half of 2017, we expect low single-digit growth in the Columbia brand consistent with our full year outlook.

Shifting to the Sorel brand, Sorel posted first half growth of more than 50%, driven by the successful launch of an expanded spring assortment. Strong sale-through of Sorel’s spring sandals gives us confidence that we’ll see continued growth in spring 2018. This year, our Sorel marketing team rebalanced the spending cadence towards the first half of the year to ensure that Sorel stayed in front of consumers throughout the spring and summer. The effect was a tripling of the time in market and doubling of impressions during the first half of the year. Our updated outlook for Sorel anticipates low single-digit second half growth and mid-single-digit full year growth.

First half Mountain Hardwear sales grew 4% as the new leadership team made good progress reducing inventory levels and assessing current spending as part of their ongoing efforts to position the brand for better performance going forward. Our new Brand President, Joe Vernachio, is making progress rebuilding the product team with a focus on design, and we expect the fall 2019 season will be the first to fully reflect those efforts. We expect a mid-teens percentage decline in Mountain Hardwear second half sales and a high single-digit full year decline as we reposition the brand for healthy growth in the future.

First half prAna sales were equal to last year as momentum in the U.S. wholesale channel helped to mitigate a temporary decline in its e-commerce business resulting from the cyber incident we disclosed earlier this year. prAna's ongoing product and marketing initiatives are continually attracting new consumers and wholesale customers to the brand. For example, prAna's team recently demonstrated great nimbleness employing consumer insights to develop a targeted range of products in only 60 days to respond to an unexpected fourth quarter market opportunity with a major customer. Our full year outlook anticipates low single-digit growth from the prAna brand all concentrated in the fourth quarter.

As we enter the second half of the year and begin to solidify and prioritize the opportunities we’re identifying through Project CONNECT, our strong balance sheet remains an important competitive advantage. Our full year outlook remains at 3% top line growth and 4% earnings growth, excluding the financial impact of the operating model assessment we executed in the first half and any related actions that we may take during the remainder of the year. Compared with last year, U.S. wholesale customers have shifted a portion of their fall deliveries from the third quarter into the fourth quarter, setting up difficult comparisons in the third quarter, followed by a more favorable comparison in the fourth quarter where we also expect continued strong growth in our direct-to-consumer business. Naturally, this shifts some of our anticipated second half earnings from the third quarter into the fourth quarter.

Consolidated inventories finished the quarter down 14%, primarily reflecting our efforts to schedule production and receipt of fall season inventory to better align with the cadence of our wholesale customers, requested deliveries of their slightly lower fall season advance orders as well as matching the needs of our own direct-to-consumer business.

In summary, we're pleased with our solid first half performance, particularly against a challenging U.S. backdrop. The company's focused on capturing the opportunities that we are identifying through Project CONNECT to accelerate the execution of our strategic plan to drive sustainable, profitable growth and expand demand creation investments. You can find more detail on our Q2 and first half results in our updated 2017 outlook and Jim's CFO commentary available on our website.

That concludes my prepared remarks. You're welcome to ask questions to the operator. Could you help us?

QUESTIONS AND ANSWERS

Answer – Operator: (Operator Instructions) Our first question comes from the line of Bob Drbul with Guggenheim.

Answer – Robert Scott Drbul: I guess, the 2 questions I have, Tim, the first one, on inventories, generally, you had some gross margin pressure this quarter as you liquidated some aged inventory. I was wondering if you could just give us an update on how you feel the channel is competitively either with Columbia product or with other product heading into the fall around the inventory situation. And then the second question that I have is, within your demand creation spending, I've seen the Columbia brand show up at some major golf events, some Top 10 finishes in the U.S. Open and in the British Open, and I just wondered, how much of your time are you guys now spending around some of the endorsement sides of it? And can you just maybe comment around your

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efforts to increase the visibility of the business a little bit more?

Answer – Timothy P. Boyle: Sure. Well, first of all, on the inventory situation, I think in the market generally, I think it's reasonably clean. We've taken a particularly cautious approach based on just the uncertainty in the U.S. market around some retailers that may be in duress during the season. So -- but I think in general, the market is fairly clean. And I would say that would probably be true as well in Europe. We've seen periods of time where we had warm weather. I think the various vendors in the retail chains have taken a more cautious approach. I think it's -- we're in the position of pretty clean inventories. As it relates to the demand creation, yes, we had -- we're very fortunate that we had some solid performance by our golfers. And I think what we're finding is that a combination of investment in social media and -- so more traditional paid advertising in TV and in print, coupled with some promotional activities we said with the U.K. parks, UTMB and with the golfers, I think it makes a better connection with the business. And then we'll have some additional information to share with you at the end of the next quarter about some other activities we've got planned as well.

Answer – Camilo R. Lyon: sponsorship and other processes to make a closer emotional connection for the products through our wholesale partners.

Answer – Timothy P. Boyle: Certainly. Well, we have many, many great customers, and we don't really touch specifically about any particular one. But we have a long-time relationship with the people at Amazon and with many of our brands, and the arrangement's been good. We currently don't have a 10% customer. So it's not dominating our business the way it may others. But frankly, there's opportunities, I think, continued advancement at Amazon for us and for the brands that we own. And we want to make sure that we utilize the other opportunities at Amazon, including search and some other marketing potential, that would help us grow the brands really everywhere.

Answer – Operator: Our next question comes from the line of Susan Anderson with FBR Capital Markets.
Jonathan Robert Komp:

First question just on the guidance for the year. I noticed just a slight increase on the profitability, and I was hoping you could maybe talk about what factors drove the increase for the full year profit guidance.

Jim A. Swanson:

Yes, you'll see that in the CFO commentary, Jonathan, the -- essentially, the only shift there from an operating income performance standpoint, we've really maintained our prior outlook. There's a couple-cent change in the outlook on the upper end of the range from $2.82 to $2.84. It's essentially an adjustment in our nonoperating income. So it's yield on our cash balances, and also, we've repaid an outstanding loan from our China joint venture with a related party there, so no longer having the interest expense charges on that. And so the combination of those 2 things is really driving that $0.02 change. That's it.

Jonathan Robert Komp:

Okay. And then I just want to clarify again on the guidance. I know you had $5.2 million of expenses tied to the realignment in the first half. It doesn't look like you excluded those from the results. But I just want to know, were those included in your guidance and are they included in your guidance today or can you just reconcile that?

Jim A. Swanson:

Yes. So the full year outlook that we've provided in maintaining the outlook that we provided in April, neither of them included either the cost that we anticipate incurring through the balance of the year nor do they include the $5.2 million that we've incurred on a year-to-date basis. And then in terms of our Q2 results, yes, certainly, we've reported those on a GAAP basis and then given you just the disclosure in terms of what the expenses are there included in those results of $5.2 million year-to-date and $4 million in the second quarter.

Jonathan Robert Komp:

Okay. So if we're including those in the model, then we should think about your full year profit guidance.
Answer – Jim A. Swanson: Well, I think, essentially, the $5.2 million we've incurred year-to-date is about $0.05. And so I think you can extend that to the range that we've provided, so our $272 million to $284 million, adjust that $0.05 downward, and that's essentially what we've provided on a year-to-date basis. And of course, as we learn more in terms of what we expect to incur and/or the benefit in the back half of the year, we'll provide that to you. But at this stage, there's not a lot more to share at this point.

Question – Jonathan Robert Komp: Okay, great. And then just the second question I had was related to your wholesale relationship and maybe specifically in the sporting goods category. Since they've talked about it publicly, I know Dick's has mentioned introducing a private label brand in the outerwear space. So I'm just wondering if you could just kind of share any thoughts on those actions and just broadly how you're faring with some of the main sporting goods customers.

Answer – Timothy P. Boyle: Certainly. Yes. Well, every single customer we have of any scale has a private label business that adds to their total profitability, and they generally manage them well. We have a great relationship with the people at Dick's, and we're close to that situation and basically feel that we have a strong relationship and our business there will continue to improve as our demand creation efforts bear fruit. I might just point out, we have an enormously good relationship with a company in Europe, Decathlon, which has a much greater penetration in private label than anybody in the U.S., and our business there has been quite strong, especially the footwear, with some solid performance, of a particular footwear product. So we're used to navigating the waters of private label as it relates to our wholesale customers, and I think we do a great job of making sure that our products are compelling alongside others.

Answer – Operator: Our next question comes from the line of Eric Tracy with Buckingham.

Analyst: Eric Brandt Tracy, The Buckingham Research Group Incorporated - Analyst

Question – Eric Brandt Tracy: Tim, for you, as you think about the shift, this is, call it, second, third year in a row as we've seen retailers obviously trying to buy closer to need. But discerning between the seasonality aspect of it and kind of what's transpired over the last couple of years just versus the structural element to it, could you maybe just speak to that? And then as you think about the supply chain, I know it's difficult to evolve that in any meaningful way, but maybe just speak to that dynamic and your views on it.

Answer – Timothy P. Boyle: Certainly. I just want to make sure I understand your question. So you -- I mean, in terms of how does the company navigate seasonality as it relates to the kinds of products that we make?

Question – Eric Brandt Tracy: Well, not necessarily, no. I'm just trying to get to, is it seasonality driven, these shifts, do you believe, or, again, more structural in nature given the disruption to domestic retail?

Answer – Timothy P. Boyle: Right. Well, we always talk about the company's heavy reliance on products that are sold, that are winter-related, whether it be the U.S., Europe, Asia as well as the timing of the major holidays around Christmas for gift giving, etcetera. So when you combine those things, the business is heavily reliant in the quarters in the fourth quarter, really, globally. I -- there's lots of discussion around global warming, and I think the company has done a great job of approaching that problem by having a strong sportswear business centered on warm weather apparel, including our PFG product. So I think the company's considered a solid and, in fact, innovative provider of protection in any season, and that's been a key strength of ours. As it relates to the structural changes in North America, I think they're more pronounced here in America than they are in other markets where we work, and that's just an area where the company will have to continue to be vigilant in terms of its credit extension and how we build product for our solid customers that will survive.

Question – Eric Brandt Tracy: Okay. And then if I could, just as it relates to the demand creation, it sounds like -- obviously, a big component of the Project CONNECT and how you think about it. And I know we've heard sort of about this in years' past in terms of potentially more shifting right of the dollars from traditional to more digital. I just want to -- is there any way to quantify potentially the increase expected around demand creation and how that build should play out in the coming quarters and/or years?

Answer – Timothy P. Boyle: Well, certainly. Well, just as a general comment, we're not spending enough. And you could argue that we're not spending what we're spending as efficiently as we ultimately will based on the conclusion of Project CONNECT. But the -- I think it's an equation that will include variables from social media, sponsorships, traditional paid advertising and other methods of digitally connecting. But I think as we get further into Project CONNECT, we'll find that there are many ways for us to be evaluating the effectiveness and the efficiency of our ads and our marketing efforts. And we'll -- we're further investing in those that have the higher return.

Answer – Operator: Our next question comes from the line of Rafe Jadrosich with Bank of America Merrill Lynch.

Answer – Rafe Jason Jadrosich: I just wanted to ask you about the -- follow up with you about the North America wholesale environment. Obviously, the first half year is impacted by some of the bankruptcies. Can you talk about how you just think about that longer term? Where are we in the retail shakeout. And then longer term, should we kind of expect that to be a flattish channel, offset by [DoC]?

Answer – Timothy P. Boyle: Certainly. Well, first of all, I think the company does an excellent job of extending credits. So our losses to bankruptcy have been among the lowest of any of the major vendors to these retailers that have failed. So I mean, that's an area that gives me a great deal of confidence. As the weaker players exit the market, there'll be more opportunity for the stronger, better operators to continue to take market share. And frankly, in many of our wholesale partners, we aren't maximizing our position there. So that's -- the Project CONNECT, as I said, is an equation to help us to improve the desirability of our products through better assortment planning and demand creation to make sure the consumers know what we have to offer and how superior it is and then working in connection with our wholesale partners and the ones that have survived to be providing more interesting ways to connect consumers emotionally to the company's products. So I mean, I think we've got a good opportunity to grow the business with the remainders and ultimately be much more successful than we've been today.

Answer – Jim A. Swanson: And, Rafe, just to jump in here, this is Jim speaking, when we look at the outlook that we've provided for the full year, with our U.S. wholesale business being down on mid-single-digit number, when you take out the impact of the bankruptcies and the liquidations, that's a low single-digit decline in the business that accounts for basically all of the decline that we saw through the first half of the year and right around 50% of the decline anticipated in the back half.

Answer – Rafe Jason Jadrosich: So excluding the bankruptcies, it's down low singles?
Answer – Jim A. Swanson: Low singles on the full year -- yes, go ahead.

Answer – Rafe Jason Jadrosich: No, no. Finish your thought.

Answer – Jim A. Swanson: I was just going to say low single -- yes, about low single digit, sorry.

Answer – Rafe Jason Jadrosich: Got it. And then it might be too early to answer this, but just on Project CONNECT, do you expect net cost savings from the initiatives? Or will all the savings be reinvested in demand creation or some of the other initiatives that you mentioned?

Answer – Timothy P. Boyle: Well, I think the ultimate goal of CONNECT is to help improve our operating margin as well as to grow the business and invest more heavily in demand creation. So there'll be great things for investors to come from this project.

Answer – Jim A. Swanson: And, Rafe, as much as there's a cost component to it, I'd also indicate commercial opportunity in terms of other ways in which we can improve either the top line or gross margin as well. So certainly, we want to be more efficient in our spend and find opportunities to reallocate. But there's a lot of other dollars to be added when we think about top line opportunity in product cost side of the equation.

Answer – Operator: Our next question comes from the line of Laurent Vasilescu with Macquarie.

Analyzer: Laurent Andre Vasilescu, Macquarie Research - Consumer Analyst

Question – Laurent Andre Vasilescu: Forgive me if I missed this, but did you quantify the dollar amount of U.S. wholesale shifted from 3Q '17 into 4Q '17?

Answer – Jim A. Swanson: Yes, this is Jim speaking. So our third quarter U.S. wholesale business, we've got that projected down a low double-digit CAGR that shift out of the third quarter into the fourth, about $20 million, that you'll see there. And then we'd anticipate with that shift, our fourth quarter being up in the U.S. wholesale business at mid-single-digit level.

Question – Laurent Andre Vasilescu: Okay, very helpful. And then I want to follow up on e-commerce revenues. Can you possibly parse out how e-commerce revenues did for this quarter in terms of percentage rate? And then separately, last year's e-commerce number, I think it was about $220 million. Should we anticipate a mid-to high teen growth rate for '17 overall?

Answer – Timothy P. Boyle: Yes, you know what, as I said, we consider ourselves to be a wholesale supplier, so we don't provide those typical retail numbers. But we're pleased with our whole -- with our e-comm business. And again, we consider that to be a significant component of our demand creation because we have, call it, average conversion rates. But that means many, many millions of customers go away with a great marketing message and hopefully buy our products, either on another platform, which is operated by one of our customers, or another retail store that our customers have our product.

Question – Laurent Andre Vasilescu: Okay. And lastly, I want to follow up on FX. The euro keeps moving in the right direction. Can you help us think through how much every $0.05 move with the euro flows through the P&L?

Answer – Jim A. Swanson: Yes. We've looked at, we've continued to update the movements in the currency to the weakening of the dollar in our forecast. To be honest with you, with our European business, the European direct business, it's essentially a breakeven business. And so as much as you're in as much movement as you see in the currency as you translate those earnings, it's really not having that potential of an impact on our outlook. And so that's part of the reason why when you look at us maintaining our outlook, despite the weakening of the dollar over the course of the last 90 days, there's really not much of a -- there's really not a change in the outlook that we're providing today.

Answer – Operator: Our next question comes from the line of John Kernan with Cowen and Company.

Analyzer: John David Kernan, Cowen and Company, LLC, Research Division - MD and Senior Research Analyst

Question – John David Kernan: So as you look at Project CONNECT, how are you looking at the margin structure of the international business? There's obviously a big difference in your financial statements and the operating margin between international and North America. So I'm just wondering, how can you close the gap in profitability?

Answer – Timothy P. Boyle: Well, the -- as you remember, a portion of our business internationally is done through subsidiaries, and a portion is done through international distributors. The cost associated with our international distributors is low, and the gross margin is low. So I think on a blended average, we've probably got opportunities through Project CONNECT to get ourselves greater gross margin in both of those businesses through specific efforts around a SKU efficiency globally as well as improvements in our design to value projects.

Question – John David Kernan: Another thing we've obviously noticed is your cash balance is up over 50% since 2015. I'm just wondering, within Project CONNECT, would you -- are you looking at ways to return cash -- different ways to return cash to shareholders? Are you comfortable with the amount of cash you're carrying on the balance sheet right now?

Answer – Timothy P. Boyle: Well, remember, much of our cash is held in offshore accounts. So it's not accessible generally to the business without a significant tax burden. But yes, Project CONNECT will help us to hopefully generate additional cash. And frankly, we have all the leverage available to us and have used them all to distribute cash, including share buyback, dividends. We've also used special dividends in the past, and we've acquired businesses. So we're mindful that our obligation is to have solid returns for all of our assets, including our cash. But as I said, we've got all the leverage available to us.

Answer – Operator: Our next question comes from the line of Chris Svezia with Wedbush.

Answer – Christopher Svezia: I guess, first, Tom or Tim, when you think about Project CONNECT and the POS systems or the retail systems you have to put in place, can you give us any idea of how much of this is actual operating costs that could come on into the business to get these up and running? And how much is actually CapEx, potentially? Is it a 50-50 split? I'm assuming it's got to be systems, IT equipment, things like that. Just any color about those 2 dynamics would be helpful.

Answer – Thomas B. Cusick: Yes. So as it relates to the retail platform initiative, yes, elements of that project will be CapEx and
elements will be SG&A. I mean, I don't have the numbers in front of me for the SAP implementation, but I think, roughly speaking, it's been 50-50 in terms of CapEx and OpEx. And I would expect their global retail platform to be generally in the same similar ratio, but we're really early stage in the planning phase. So we'll provide more colors as those plans come together. And then did you also have a question on Project CONNECT in the same regard? Or...

**Answer – Christopher Svezia:** Yes, yes, that will be helpful, Tom, if you have any thoughts about that as well.

**Answer – Thomas B. Cusick:** So yes, maybe just to talk a little bit about that. There wouldn't -- I can't foresee any real capital CapEx per se relative to internal costs being incurred for that project. But I would say, as Jim mentioned, there are commercial elements that impact top line cost of goods and gross margin, and then there's indirect SG&A that would impact the SG&A line. So we would expect really all elements of the P&L to be impacted by Project CONNECT over time.

**Answer – Christopher Svezia:** Okay. Okay. And then what percentage of the business now is demand creation? I want to say something in the 5%, so I might be wrong. And then final thoughts, just on the inventory, down 14%, how should we think about that for the balance of the year? It will be helpful.

**Answer – Jim A. Swanson:** Yes, I can touch on each of those. So for a marketing spend perspective, we anticipate our marketing spend as a percentage of revenue to be in line with where we were in 2016 at about 5% of sales, so calibrated to that. And then from an inventory standpoint between now and the end of the year, we'd anticipate, at the end of the third quarter, we'll continue to trend down. But as we look out to the balance of the year, it's all -- it's dependent upon, obviously, receipts as we get out to our spring '18 season but we'd anticipate the inventory moderating a bit more in line with our full year sales growth rate of about 3%.

**Answer – Operator:** Our next question comes from the line of Michael Kawamoto with D.A. Davidson.

**Answer – Michael Milton Yuji Kawamoto:** I'm on for Andrew. Just in relation to Project CONNECT, where do you full price brick-and-mortar stores spend your DTC strategy going forward?

**Answer – Timothy P. Boyle:** Yes, certainly. Well, here in the U.S., we have a few full price, what we call, branded stores, and I would suggest that we have to get our legs underneath us in those stores before we would make significantly more investments. We believe there are opportunities for us in many parts of the United States for branded stores to help us elevate the brand as it relates to our other successful businesses with wholesalers and with others. And as it relates to globally, we have many, many full price stores globally, and those tend to be very successful, operated in general by our wholesale distributor -- our independent distributors internationally, and those have been very successful. So on a blended basis, we have a successful full price store fleet, but before we make further investments in North America and in Europe, we want to have a better format and we're working on that.

**Answer – Operator:** Ladies and gentlemen, that is all the time we have for questions today. I'd like to turn the floor back to management for closing comments.

**Answer – Timothy P. Boyle:** Well, thank you very much for listening in today, and we look forward to having more information about the future of the business and Project CONNECT next time we connect.

**Answer – Operator:** Thank you. This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.