Company Name: Columbia Sportswear
Company Ticker: COLM US
Date: 2012-02-02
Event Description: Q4 2011 Earnings Call

Market Cap: 1,610.85
Current PX: 47.90
YTD Change($): +1.35
YTD Change(%): +2.900

Bloomberg Estimates - EPS
Current Quarter: 0.421
Current Year: 3.238
Bloomberg Estimates - Sales
Current Quarter: 353.333
Current Year: 1814.231

Q4 2011 Earnings Call

Company Participants

- Ron Parham
- Gertrude Boyle
- Timothy P. Boyle
- Thomas B. Cusick
- Bryan L. Timm

Other Participants

- Robert S. Drbul
- Reed A. Anderson
- Tiffany K. Hagge
- Robert F. Ohmes
- Katharine McShane
- Claire Armstrong Gallacher
- Andrew S. Burns
- Mitch J. Kummetz
- Christian Buss
- Camilo R. Lyon
- Liz Dunn
- Ken M. Stumphauzer

MANAGEMENT DISCUSSION SECTION

Operator

Greetings and welcome to the Columbia Sportswear Fourth Quarter 2011 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

Thanks, Bob. Good afternoon, everyone, and thanks for joining us this afternoon. Earlier today we issued a press release announcing our fourth quarter and full year 2011 financial results, and establishing our preliminary outlook for 2012. In addition to the press release, we posted a detailed CFO commentary to our Investor Relations website about 45 minutes ago, which we hope you've had a chance to review prior to the call.

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 before we get started.

Gertrude Boyle

Good afternoon. This conference call will contain forward-looking statements regarding Columbia 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, 2010 and subsequent filing with the SEC.

Forward-looking statements in this conference call are based on our current expectation and belief, 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 to change in our expectation.

Ron Parham

Thanks, Gert. Before I turn the call over to Tim, I want to take a minute to cover a couple of changes that we're making to our disclosure practices. The first is a change to our product category reporting structure to better align with our internal organization and management structure, beginning with our fiscal 2011 results and continuing forward quarterly, we will report combined net sales of apparel, accessories and equipment in a single line item, which together with footwear, will constitute our product category disclosure. Comparative historical amounts will be recast in all of our SEC filings and all other net sales disclosures by brand and geographic region remain unchanged at this time.

I also want to draw your attention to the top of page six in our CFO commentary, describing a change we will be making in our outlook protocol in an effort to provide greater clarity for investors and to bring our public disclosures in line with how we internally plan, forecast and manage our business.

Our business and internal management processes have evolved significantly in recent years, including a broader geographic scope, larger international distributor and direct-to-consumer operations, increased automatic replenishment programs, changes in the multiple data points that we use to plan our business, and further changes in many of our business processes in connection with our upcoming ERP implementation.

We will continue our current practice of communicating a preliminary full year financial outlook at the beginning of the year and update that outlook on a quarterly basis, along with a detailed outlook for the ensuing fiscal quarter that includes among other things our most up-to-date assessment of customer commitments, retailer sell-through and consumer trends. But we have concluded that the practice of providing two seasonal backlog reports as of March 31 and September 30 has become less relevant, increasingly confusing to investors, and is not material to an understanding of our Company and our future expectations.

We'll be happy to address any questions about that later on the call. And now I'd like to turn it over to Tim.

Timothy P. Boyle

Thanks, Ron. Welcome, everyone, and thanks for joining us this afternoon. I have attracted a cold, so I'm going to try and make it through this script without hacking, so please understand if I do.

So looking back at 2011, we're very pleased that we achieved many of the financial and operational goals that we set for ourselves at the beginning of the year. And we'll just never know how much better 2011 could have been had we enjoyed anything resembling a normal winter in the northern hemisphere during the fourth quarter.

We finished the year with record revenues of $1.69 billion, up 14% from 2010, despite unseasonably warm weather and a sluggish European economy that caused our full year sales to be slightly below our October outlook. Our fourth quarter and full year earnings per share were within the range of our October outlook, thanks to firm gross margins and controlled spending.

Fiscal year 2011 operating margins improved to 8.1%, up 110 basis points from last year's 7.0% operating margins in fourth quarter and full year net income grew 40% and 34% respectively. While this is movement in the right direction, we remained intently focused on driving further improvements in profitability in the years ahead.

Each of our brands grew stronger as we continued to lead the outdoor industry with clearly differentiating innovation. We have a pipeline of innovation across our brand portfolio that will continue to drive the business over the next several years. In the Columbia brand, expansion of our Omni reflective technology into Baselayer and Electric products created a complete warmth portfolio that continues to build consumer awareness and adoption. In addition, Columbia footwear sales grew 16%.

During 2011, brand-enhancing specialty and outdoor retailers represented the Columbia brand's largest channel distribution in the U.S. for the first time in more than a decade. By combining innovations with enhanced design and compelling marketing, we're succeeding in elevating the brand, as evidenced by increasing recognition from leading outdoor industry publications.

As an example, Outside Magazine awarded our Omni-Heat Electric circuit breaker soft shell its 2012 Radical Design Award, and National Geographic bestowed its Gear of the Year award on the Omni-Heat Electric Bugaglove. The Gear Junkie Blog named our Spring '12 Bug Shield Mesh Jacket Best in Show at the 2011 Outdoor Retailer Summer Market and last month at the 2012 Outdoor Retailer Market, our Fall '12 Powder Fly Down Jacket won Best in Show from OR Daily Magazine, and our booth won Best in Show for technology education.

While most brands use athletes and official spokespersons in their marketing campaign, we believe Columbia may be the only brand with a global marketing campaign centered around an official anti-spokesperson. The viral campaign we launched in October using Guinness World Record Holder Wim Hof, the Iceman, this guy does not wear outerwear, as our anti-spokesperson has been very successful in promoting our Omni-Heat Electric jackets, gloves and boots. The campaign prompted a lengthy New York Times article, and Business Insider magazine rated the ads among the best of 2011.

So far, Columbia's online Wim Hof videos have attracted nearly 35 million views, and the public continues to engage with the campaign. And in case you missed it, in November, Wim claimed the world record for ice endurance by standing encased in ice on a Manhattan sidewalk for more than an hour and 52 minutes. Unfortunately, that's about the only time this year that Manhattan sidewalk had ice on it. We are confident that we are on the right strategic path and that we're still very early in the process of igniting more intense consumer interaction with the brand.

To wrap up on the Columbia brand, earlier this week we announced the promotion of Adrienne Moser as Vice President of our global Columbia brand apparel merchandising and design team. Adrienne replaces Sue Parham, who has been in that role for the past two years grooming Adrian as her successor. We anticipate a very smooth transition as she applies her wealth of relevant industry experience to help us build on the momentum that the team has established.

The Sorel brand was a smashing success in 2011, posting a 68% increase in global sales, reaching $150 million. We're very excited about the brand-enhancing distribution partners that Sorel's attracting and the growing number of fashion-forward female consumers around the world who are discovering the brand.

Our Sorel marketing team was in Utah last week during the 2012 Sundance Film Festival in Park City. Sorel hosted an invite-only suite offering key styles from our fall 2011 collection for fittings with celebrities, style influencers, media, and premium Sorel retailers who were attending the festival. Those efforts paid off with great exposure for Sorel on the feet of influential celebrities and media coverage that included all of the top names in fashion. We also shared the Sundance experience through social media channels with Sorel fans who couldn't be in Park City.

As pleased as we are with the growth of Sorel in the U.S. and EMEA markets, it's important to note that we have yet to attack the potential market for Sorel in any meaningful way in Russia, Korea, Japan, or China. And we believe each of these markets will play a significant role in Sorel's future growth.

Mountain Hardware sales grew 17% in 2011. The Mountain Hardware team pioneered several great innovations of their own in 2011, led by the successful launch of their portfolio of Dry.Q waterproof/breathable fabric systems. For fall 2012, Mountain Hardware's Ghost Whisperer Down Jacket will be among the lightest weight full-featured down jackets on the market.

Mountain Hardware is proud to be associated with today's undisputed king of extreme alpine speed climbing, Ueli Steck of Switzerland. After establishing speed climbing records on some of the most challenging peaks in the Alps, Ueli is gearing up for a return trip to the Kumba this spring to tackle new routes on three summits over 6,000 meters, and later in the year, Ueli will return to climb Everest.

Ueli Steck is just one example of the alpine athletes who work directly with our Mountain Hardware product innovation teams to imagine and then create the high performance gear necessary to succeed in these incredible feats under very challenging conditions. As an aside, Ueli is among a growing number of enthusiastic supporters of our OutDry Waterproof Breathable Glove technology. We're beginning to see increasing success with OutDry, in both footwear and gloves across our brands, providing a best-in-class waterproof breathable solution and reinforcing our position as a leading innovator.

With just five countries, the U.S., Korea, UK, Canada and Japan, accounting for more than 90% of Mountain Hardware's global sales, we're confident that this brand has tremendous potential for expansion in the years ahead.

Looking at 2011 from a regional perspective, three of our four regions generated double-digit sales growth. Our international regions combined to account for 44% of our 2011 net sales, up from 41% in 2010. The Latin America, Asia Pacific region grew $78, million or 29%.

Our Japan subsidiary grew 22%, reflecting the resiliency of the Japanese culture in recovering from the devastating earthquake and tsunami more quickly than anticipated. In Korea, where our subsidiary operations are exclusively direct-to-consumer, full year sales grew 33%, even though warm weather noticeably slowed sales in the fourth quarter. Our LAAP distributor business grew 37%, driven by our distributor in China.

The U.S. region grew $67 million, or 8%, in 2011. U.S. direct-to-consumer sales grew 28%, while U.S. wholesale sales grew low single digits. Columbia brand sales in the U.S. grew 4%. Sales of Sorel grew 60%, while Mountain Hardware grew 17%.

The EMEA region grew $53 million, or 24%, with Sorel accounting for the largest portion of that growth, followed very closely by the Columbia brand. Our Europe direct business grew 26%, while our distributor business grew 20%. In 2011, we invested aggressively in our European direct operations, including hiring a Sorel-specific sales force in key markets to attack that opportunity.

Finally, Canada grew $13 million, or 11%. Despite a warm winter, Canada saw encouraging increases in sales to specialty and sporting goods channels during the year. In late December, we purchased a new distribution center in London, Ontario, which will allow us to consolidate our two existing distribution facilities in 2013. The addition of this facility is expected to be neutral to operating income in 2012. Our team in Canada is also gearing up to service the pilot site for our SAP implementation later this spring.

To wrap up on 2011, a good solid year across each of our brands, regions and product categories, producing record revenues and improved profitability that was slightly ahead of our original plan.

Turning to 2012, as you all know this winter has been the warmest in decades across most of the Northern hemisphere.

Since Columbia Sportswear company has been around almost as long as some of the countries have been keeping weather statistics, we know that the effects of unusually warm winters like this one have historically reduced retailer confidence as they plan their orders for the following season. This year, the ongoing European debt crisis has further dampened retailer and consumer confidence across Europe and in some segments of the U.S. Against this backdrop, we expect our wholesale customers in North America and Europe to plan their 2012 businesses conservatively and for consumer spending to remain subdued throughout the year.

As a result and as indicated in our preliminary 2012 outlook, we now expect a low single digit-percentage sales increase in 2012. As these challenging trends became evident in late 2011, our management team formulated a 2012 spending plan that correlates with this lower level of anticipated sales growth, while still focusing necessary funding on our most important strategic growth initiatives. We have already begun to implement changes across the business to significantly slow spending growth.

We've delivered solid sales and earnings growth over the last two years and our organization has grown rapidly to support. We remain confident about the long term market opportunities for our brands and are focused on streamlining the organization to ensure that we are aligned with the most impactful opportunities to reaccelerate top-line growth and improve profitability in 2012 and beyond.

One of those opportunities includes a further expansion of our global direct-to-consumer platform. In 2012, we plan to add 10 U.S. outlet stores, as well as additional store fronts in Korea, Japan and Canada. As we prioritize our spending plans, we are very clear about two things. One, we remain firmly committed to investing in innovation, enhanced design, our direct-to-consumer platform, and compelling marketing to elevate our brands and gain market share. Two, we're firmly committed to investing in information technologies and process improvements to increase operationally in supply chain efficiencies and profitability. In closing, we're pleased with our 2011 results, and despite the challenges, are focused on managing the business to achieve further operating margin leverage in 2012.

That concludes my prepared remarks. Operator, can you help us field some questions?

Q&A

Operator

Yeah. Thank you. We'll now be conducting question-and-answer session [Operator Instructions] Our first question comes from the line of Bob Drbul with Barclays Capital. Please proceed with your question.

<Q - Robert S. Drbul>: Thanks, good afternoon.

<A - Timothy P. Boyle>: Hi, Bob.

<Q - Robert S. Drbul>: Hi, Tim. Hey, guys. I guess the first question that I have, Tim, for you is, so the inventory levels ended up, I think was it 16%. And when you look at your gross margin guidance for the first quarter and for the full year, I think down 60 for the first quarter, but up for the full year. Can you just put a little bit of color around how you feel comfortable with that guidance given the inventory levels where you are right now?

<A - Timothy P. Boyle>: Yeah, I mean, I want Tom to speak specifically on it, but as you know, we've done a lot of work and have a significant amount of our order book in, and we've got an opportunity to view our margins on the products that we're selling for fall which, if you remember, is the bulk of the company's revenue and profitability. So we have a high degree of confidence in that projection. But as it relates to how the inventory plays into that, I'm going to let Tom speak to that specifically.

<A - Thomas B. Cusick>: Yeah, Bob, maybe just separating spring and fall, obviously we believe we've got much more pricing power in the fall season than we do spring, so we're confident that we're going to be able to expand gross margin in the second half of the year, but given the full price close-out mix in the first half with the excess inventory, that's going to put some pressure on gross margin [indiscernible] (19:46).

<Q - Robert S. Drbul>: Okay. And then I guess two other questions that I have for you. Have you seen any price resistance? I know weather was a major issue, but in '11 from consumers or even retailers, have you seen any price resistance around some of the increases that you have passed or are passing through?

<A - Timothy P. Boyle>: Surprisingly it's been minimal. We're known as a value brand and in some areas we were able to maintain those values, but frankly, we've been pretty pleased at the results on sell-through for some of our basic product that we had to raise prices on, and the sell-throughs there have been pretty encouraging.

In some areas, not only did we raise prices, but we enhanced the retailer gross margin by changing the method we sell, in other words using a suggested price instead of a discounted price for the retailers. So, we're pretty pleased with how well the stuff has sold through, and we can't say there's no price resistance, but we're pleased that we've seen less than maybe we had anticipated.

<A - Thomas B. Cusick>: Bob, this is Tom. Just maybe one follow-up on the inventory question. As we look at the composition of inventory, I think, as we stated in my commentary, a little under 90% of the inventory is current Spring '12 and Fall '11 inventory. And of that, we intend to clear roughly two-thirds of that through our own retail channel and about a third through existing customers, including the value channel, in 2012.

<Q - Robert S. Drbul>: Got it. That's helpful. And then I just have one sort of overall question for you. Can you give us an update where your distribution channels are today in terms of sporting goods, specialty, department stores and sort of actually how that has trended over the last few years?

<A - Timothy P. Boyle>: Well, I don't know if we have in front of us the specifics, but I know that the sporting goods and outdoor segment has grown fairly dramatically over the last several years. The department store channel has, in fact, been reduced as a percentage and as an actual number numerically. So, the focus has been on growing the business in specialty and outdoor, and that's been quite successful here in the U.S., but frankly, even more so in Europe.

<Q - Robert S. Drbul>: Okay. Thanks very much. Good luck.

<A - Timothy P. Boyle>: Thanks, Bob.

Operator

Thank you. Our next question comes from the line of Reed Anderson with Northland Securities. Please proceed with your question.

<Q - Reed A. Anderson>: Good afternoon. Thanks for taking my question.

<A - Timothy P. Boyle>: Hi, Reed.

<Q - Reed A. Anderson>: Tim, I hope you feel better by the way.

<A - Timothy P. Boyle>: I'm sure I will.

<Q - Reed A. Anderson>: Yes, you will. Couple questions. Just to follow back on Bob's inventory question. I mean, Tim, I'm just curious, what's your view on kind of what the inventory situation looks like at retail, particularly in that outerwear category? Do you feel like it's getting cleared out, or do you think it's still taking a long time?

<A - Timothy P. Boyle>: Well, I think, this – January, February, and in Europe certainly, and March are good sales of winter merchandise. So we've had, obviously, a tough January. I think we heard today it was the warmest in 50 years or something like that. So I'm expecting that the inventories will be higher than they were in the previous two seasons, but the bulk of our retailers, certainly the biggest ones, go ahead and mark that stuff down. So they'll be cleaner than they are today, or maybe that they otherwise would be if they hadn't marked the merchandise down.

It does dampen their appetite for refilling the stores for next year. So, we're pleased with our results to date as it relates to how warm the winter was. But it's really a function of how much risk retailers want to take on winter merchandise as opposed to having merchandise left over.

<Q - Reed A. Anderson>: Yeah. That makes sense. And then, getting to the – talking about the guidance piece, or the kind of the preliminary outlook on fiscal '12, I'm just curious. If you were to think about that from the way you're now breaking out product categories, essentially footwear and then versus everything else, would it be fair to say that the outlook you're giving today, the preliminary outlook, more or less contemplates continued growth in footwear and sort of flattish apparel and accessories and outerwear? Or is it too early to tell at this point?

<A - Timothy P. Boyle>: Yeah, I'm going to let Tom speak specifically to that. But basically, that's our expectation, I think, is that our footwear will continue to move forward, and we'll have good business in outerwear. But it's against a season where it was very warm through most of the northern hemisphere.

<A - Thomas B. Cusick>: Yeah, and just given, Reed, that footwear is a smaller base of business, I think we could expect footwear to grow slightly faster than the apparel business in 2012.

<Q - Reed A. Anderson>: That makes sense. That's what I was figuring. Where did you come out, Tom, I think last quarter – and I don't have the notes in front of me. But you kind of broke out precisely kind of where your direct-to-consumer business was as a percent of the overall mix. Where did you end up for the year and what is kind of the thought on that? Is it going to grow again this year? Or is that starting to kind of flatten out as a percent?

<A - Thomas B. Cusick>: Yeah, so we ended at about a little over 25% direct-to-consumer relative to the total business and we expect that part of the business to remain about that size, maybe slightly larger as we look at 2012, but not significantly larger.

<Q - Reed A. Anderson>: Good, and then one last one and I'll let everybody else jump in. Can you quantify, or at least put around rough parameters, what the benefit was from the sales that shifted from the earlier distributor shipments into 4Q out of 1Q last year?

<A - Thomas B. Cusick>: It was in the double-digit millions of dollars, Reed.

<Q - Reed A. Anderson>: Okay, that's fine. Thank you, best of luck guys.

<A - Timothy P. Boyle>: Thanks.

Operator

Thank you. Our next question comes from the line of Michelle Tan [Goldman Sachs]. Please proceed with your question.

<Q - Tiffany K. Hagge>: Great, thanks, guys. This is Tiffany on for Michelle tonight, just a couple quick questions. So looking ahead to 2012 and given the environment, Tim you mentioned that you have already identified and implemented some changes across the business to significantly slow spending growth. So, I was wondering if you could go into little more detail on the areas where you see you can cut back on spending in 2012 and on the flip side, kind of what your spending priorities are for the year.

<A - Timothy P. Boyle>: Well as I said, we're focused on continuing to fund these innovation concepts that we have in the pipeline already fully baked or under construction. Those things are going to continue to get funded, as well as our direct-to-consumer business. But we're really looking at almost every lever that we have in the business as it relates to our SG&A, including hiring freezes. We've done a significant amount of travel reduction, including moving meetings and other kinds of travel that we felt was not critical to the business.

We've suspended 2012 merit increases in most of our regions, contractors and interns reduction, professional fees reduced. Actually, my mom and myself are taking a voluntary 50% salary reduction for 2012 to make sure that the teams globally know how important it is to reduce our expenses. We're focusing on discretionary items of all types and really in streamlining the organization overall.

Marketing spend, frankly, will be at about last year's percentage level as a percent of sales. So, we're going to continue to focus on our marketing of the company's innovative products, but we're really looking in many ways to control our expense levels. They are growing over last year, but we want to have leverage this year, and we're focused on making that happen.

<Q - Tiffany K. Hagge>: Great. That's good to know. And just a quick follow-on, so it seems like the growth in Sorel has still been strong. I was wondering if you can share with us some of your strategic initiatives for the Sorel brand in

2012 and kind of what you're excited about there.

<A - Timothy P. Boyle>: Well, it's a – as you know, the focus for us is on the women's side of the business and on really exciting that female consumer as it relates to winter and protective footwear. So we've got more interesting products for the female consumer and we're focusing on increasing the amount of exposure that the brand gets in these publications, as we discussed in the script, talking about where we're focusing on our – as an example on Sundance to get that female consumer who's fashionably oriented to review that.

We also have a significant investment in the slipper category, which has been one of the biggest selling product categories for the company, specifically, Sorel slippers, of any product category that we have, so that we've got an expanded slipper assortment and just basically enhancing and continuing to expand the distribution to fashion stores across, really, globally.

<Q - Tiffany K. Hagge>: Great. Thanks. Best of luck, guys.

<A - Timothy P. Boyle>: Thanks.

<A - Thomas B. Cusick>: Thank you.

Operator

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

<Q - Robert F. Ohmes>: Can you hear me?

<A - Timothy P. Boyle>: We can, Rob.

<Q - Robert F. Ohmes>: Tim, just a couple of quick follow-ups. On the – sort of the – as you move through the inventories through 2012 in the guidance you gave, can you talk a little bit about the outlet store profitability assumptions? Will it – is it a – will it impair the margin of the outlet stores significantly? Or do you think you're going to be able to work through that inventory in a profitable way in your outlet stores? And the other question I had, sort of within your guidance, as you look to 2012, what is the growth assumption of Columbia's wholesale apparel growth in the U.S.? So I know your D to C is still growing in 25% of your business. Are you still transitioning out of the mid-tier channel to the point that you could have down apparel growth or can you just paint the picture for how the continued transition looks? Thanks.

<A - Timothy P. Boyle>: Certainly. Well, to speak to your point regarding the margins on liquidation for us through our outlet stores, we actually had a high percentage of our excess from prior periods liquidating in 2011 and we had significant margins. So, we don't expect that the margins will be impacted at all in our outlet operation, based on the liquidations that we have planned from our Fall '11 product.

It's all great product. As Tom said, it's very fresh and we've done a good job of keeping that in good shape. And so we don't expect any margin degradation on the direct-to-consumer from our outlet side as it relates to the winter product we're carrying over from Fall '11.

Our growth assumptions on Columbia apparel, we will grow, we believe, and it will be low single digits, so on the average, of the business and our expectations are that we're going to continue to have solid business in that area.

<A - Thomas B. Cusick>: And Robbie, this is Tom, just to follow on. As we look at our direct-to-consumer business, we fully expect the operating margin in that business to continue to expand through 2012 similar to 2011.

<Q - Robert F. Ohmes>: Got it. And just to follow up on the wholesale Columbia apparel business, Tim, do you expect the growth to be more consistent by channel? So what I'm trying to get at is the shift back into REI and Dick's sporting goods, was 2011, the big year of that and 2012 you're sort of through that? Or is there more that in 2012, so that we should expect sporting goods and independents to grow at a healthy rate?

<A - Timothy P. Boyle>: Yes, I'm sorry. Our expectation is that our growth will happen, in fact, in the sporting goods and outdoor. And I'm guessing that our department store business is going to be about flat to maybe slightly down. But the growth will come from the sporting goods and outdoor section, globally really.

<Q - Robert F. Ohmes>: Great. Thanks so much.

Operator

Thank you. Our next question comes from the line of Kate McShane [Citigroup Global Markets]. Please proceed with your question.

<Q - Katharine McShane>: – is going faster.

<A - Timothy P. Boyle>: Hey, Kate, sorry, we missed the first part of your question, I think, sorry.

<Q - Katharine McShane>: I'm sorry. I have a very raspy, sick voice as well. My questions are around the mix of the business. So, I assume that based on the warm weather, fleece and shells, possibly sold through fairly well and it could be that you see retailers gravitate more towards that. And I wondered, with the possible shifting in mix towards lighter or layer-type product, what it would mean for gross margins and also combined with the faster footwear growth, what it would mean for gross margins?

<A - Timothy P. Boyle>: Well, I'm going to have Tom speak specifically to the gross margin, which we're anticipating. But I don't think mix is going to play a big part in any potential change here, But, Tom, do you want to be more specific there?

<A - Thomas B. Cusick>: Yeah, Kate. As it relates to the footwear side of the business, as we look at the Sorel margins and the excellent growth we've realized there and we expect to continue, as we've said, the Sorel margins are more outerwear-like margins than the traditional Columbia footwear. So, with continued growth there, that should actually be helpful to gross margin as we look at Fall '12 and the footwear growth of the business.

<Q - Katharine McShane>: Okay. Thank you. And with Omni-Heat, will Omni-Heat continue to become a bigger part of your mix in 2012?

<A - Thomas B. Cusick>: Absolutely. We're finding really nice places to use. In fact we have a – we launched a line of sleeping bags for Spring '12 which contain Omni-Heat and they've been very well received.

<Q - Katharine McShane>: Okay, great. And my last question is just with the change in the Head of Apparel, will it be Spring 2013 in terms of the first line she'll be directly touching or is it Fall 2013?

<A - Timothy P. Boyle>: Well, Adrian has been here for maybe almost two and a half, three years, so she's been involved in the construction of the lines for quite some time. So, she's involved today in the 2012 spring and fall merchandise as well as beginning '13 and beyond.

<Q - Katharine McShane>: Okay. Thank you.

<A - Timothy P. Boyle>: Yeah.

Operator

Our next question comes from the line of Claire Gallacher with Auriga USA. Please proceed with your question.

<Q - Claire Armstrong Gallacher>: Great. Thank you. I wanted to ask about your spring business. You've done a great job creating a lot of buzz and a lot of great technical products for your winter product. So given the warm winter we've had, it makes us look at spring and a little bit more critically. So, how do you see your spring business evolving and do you have a plan to increase that percent of sales going forward?

<A - Timothy P. Boyle>: Well, it's been a goal for us for a long time, actually. The biggest components of our spring business, frankly, are PFG which is our fishing apparel product, which has been extremely successful. If – the line is probably I don't know, maybe 15 or 20 years old, and it's really the de facto fishing apparel and casual sportswear apparel for most of the South and Southeast United States and then into Central and South America it's been a big part of the business there.

That's continued to grow well and we've been able, frankly, to increase our gross profit margins on that product pretty significantly. But as I said earlier, we're finding ways to use Omni-Heat in the spring, including sleeping bags, and then we have a significant amount of business that we're generating with insect repellant apparel. And then lastly talking about our innovations, we have a significant amount now of apparel which is designed to actually cool the wearer.

So it really is what we call sweat-activated clothing and that continues to grow in sales and we've become better at making it perform better. There's a constant focus on that part of the business for us for spring because in addition to spring being an important season in the U.S. and in Europe, there's many parts of the world that it never gets cold and we'd like to sell lots of stuff in those parts of the world as well.

<Q - Claire Armstrong Gallacher>: Okay, great. And then just following up on Kate's question, the Omni-Heat for Fall '12, I believe last year you were talking about 40% of your SKUs – I believe it was 40% of your skews for Fall '11. Omni-Heat was somehow involved. Is that number 40%, is that going to jump significantly as we look at Fall '12 or how big is the delta?

<A - Timothy P. Boyle>: It's grown for sure. I don't have the delta specifically, but I'm sure that it's – I'm sure it's grown and I'm sure – without having the stuff in front of me, I know that our best-selling styles all contain Omni-Heat. So it's probably a larger percentage of our sales.

<Q - Claire Armstrong Gallacher>: Okay, great. Best of luck.

<A - Timothy P. Boyle>: Thanks.

Operator

Thank you. Our next question comes from the line of Andrew Burns with D.A. Davidson. Please proceed with your question.

<Q - Andrew S. Burns>: Hi, good afternoon. I was hoping you could help me reconcile the first quarter guidance for revenue up 1% with the spring backlog up 7%. And then with increased clearance of the Fall '11 product in your direct-to-consumer channel, I thought that might actually boost revenue slightly in the first quarter as well. Thanks.

<A - Timothy P. Boyle>: Hi, Andrew. Your question is specifically why we're moving away from reporting backlog going forward, because it's a constant reconciliation process. But I would say to answer your question; the single biggest reason is we shipped a greater proportion of our distributor shipments in December. Earlier to Reed's question, I had said that that was a double-digit millions of dollars increase year-over-year. So, that's really why you're seeing the muted growth in the first quarter. It's really a shift in timing of those specific shipments.

<Q - Andrew S. Burns>: Okay, thanks. And just in terms of retailers being cautious on pre-order, how does that affect you in terms of your timing for placing orders from – with your manufacturers for the Fall '12 line? What's sort of the drop date where you have to place those orders to have the inventory in time, and how does that conservative pre-book limit your ability there?

<A - Timothy P. Boyle>: Sure. Well, outerwear, because of the multiple components in the garment, that actually has the longest lead time of any of the product categories that we manufacture. So our order book is filling up now, and we're placing our orders against that order book. And frankly, by middle of March, we'll be completely booked from our production standpoint. And customers who have bought from us will get deliveries on time as they request, but we're not going to be building additional inventories on a speculative basis.

So, it really – we're limited at, by the time we get to mid-March for purchasing any product for Fall '12. The problem we get buying product beyond mid-March is it becomes at-risk for any late delivery, it's immediately a close-out, and we just don't want to take that risk ourselves. So we'll be taking all of the orders that our customers are willing to give us, all the way through mid-March, and then we'll be close – not closing the book, but we'll be done in terms of purchasing.

<**Q - Andrew S. Burns**>: Okay. Thanks. Last question, just in terms of the tax rate guidance, 27% to 28% seems a bit higher than years past. Wondering what's the long-term tax rate assumptions we should be thinking about for our model? Thanks.

<**A - Timothy P. Boyle**>: Yeah. I would say mid- to high-20s is the normalized rate, and it's going to vary depending on mix of income, statutes tolling on open tax years and various tax strategies that we implement over time, but I think mid- to high-20s is a reasonable range.

<**Q - Andrew S. Burns**>: Thanks and good luck.

<**A - Timothy P. Boyle**>: Thanks.

Operator

Thank you. Our next question comes from the line of Mitch Kummetz with Robert W. Baird. Please proceed with your question.

<**Q - Mitch J. Kummetz**>: Yeah, thank you. Let's see, I think I've got a few questions for Tom. So, first one on the SG&A outlook, starting with Q1. When I run the math on Q1, 1% sales increase, SG&A de-leveraging by at least 350 basis points, on a dollar amount, I've got SG&A up $13 million year over year. I mean that's before these cost containment measures go into effect, but how quickly does that ramp down from a dollar standpoint, and do you actually think that SG&A will be down in the back half of the year in terms of dollars year over year?

<**A - Timothy P. Boyle**>: Yeah, I do think that SG&A can be flat to down in the back half. We're contemplating low single-digit SG&A growth, and as you can see, we're going to realize between a quarter and a third of that growth in the first quarter. And really that's a function of the anniversary effect of a lot of the investments, Mitch, that we made in 2011. For example, a lot of the merit increases and so forth go into effect late in the first quarter, so that's – of 2011. So, we're still absorbing the anniversary effect of those costs in Q1, so our expectation is that rate of SG&A growth ramps down significantly in the back half.

<**Q - Mitch J. Kummetz**>: Okay. That's helpful. And then, Tom, in your script or your commentary in the 8-K, you talk about on the gross margin side that you still expect higher input costs on the year. Can you talk a little bit about that in terms of first half versus second half? Do you expect some relief in the back half or even to the extent where input costs might be down year over year?

<**A - Thomas B. Cusick**>: Yeah, we're not planning input costs down in the back half, but I think we've done a very good job of pricing the fall line. And we've price – like I mentioned earlier, we've got much more pricing power in fall than we do spring, just given the innovative technologies in the fall product. So, we feel pretty good about our ability to expand gross margin in the back half of the year, coupled with the effect that we'll have some fairly nice currency tailwinds from a hedging standpoint in Fall '12.

<**Q - Mitch J. Kummetz**>: Okay. And then the international distributor revenues that got pulled forward from Q1 into Q4, does that have any impact on Q2? Or should we expect Q2 revenues to look more like the backlog, the spring backlog increase that you guys reported last call?

<**A - Timothy P. Boyle**>: Yeah, the second quarter's really the most difficult one for us to forecast, because we're winding down spring and we're beginning to ship fall. And we ship a large volume of distributor shipments in June and July, and they can fall in either month and a large percentage of those shipments fell in June in 2011, so it's a little early to tell. I think in April, we'll have better visibility on how those quarters break down.

<Q - Mitch J. Kummetz>: Okay. And then maybe just the last one, on your direct business, on your own stores, I don't recall if you said this or not, but what was the comp for the quarter on your stores, U.S. and then also on a global basis? I don't know if you can give that.

<A - Timothy P. Boyle>: We haven't historically given comp store growth rates for our direct-to-consumer business.

<Q - Mitch J. Kummetz>: Okay.

<A - Timothy P. Boyle>: Our comp store growth rates for 2011 were quite healthy.

<Q - Mitch J. Kummetz>: Okay. All right. Thanks, good luck.

<A - Timothy P. Boyle>: Yeah.

Operator

Thank you. Our next question comes from the line of Christian Buss. Please proceed with your question.

<Q - Christian Buss>: Yeah, I had two questions. One, can you explain how conservative your guidance is relative to what you're seeing, particularly as you get through the early parts of the order book here for the back half?

<A - Timothy P. Boyle>: Well, as you can imagine, the business is quite complicated and complex and so our view that we've given you today is really our best view of the future, taking into account all those variables, which all run from currency to customer acceptance. I mean there's so many variables here that it's almost impossible to list them all. But that's our best view of what we think will happen. And I would just add I think our forecasting process has been relatively consistent whether you call that conservative or aggressive, we'll leave that to you, but we're certainly consistent in our approach.

<Q - Christian Buss>: Okay. And if we can maybe helicopter up a bit, you've spent a lot of time over the last couple of years talking about product innovation. How much of the product portfolio is now at the point where you think it's competitive from a feature set, from a technology set, or leading?

<A - Timothy P. Boyle>: Well, it continues to improve, but – so when we look at the product line itself numerically, we probably have significant investment there, but when we – and a significant amount of the products have technology, so when we look at the actual sales, the sales are being produced and the margins being produced by the innovative product. So, looking at it from a revenue standpoint, we're certainly generating revenue on the enhanced innovative products.

<Q - Christian Buss>: Okay, that's helpful, thank you.

Operator

Thank you. Our next question comes from the line of Camilo Lyon with Canaccord Genuity. Please proceed with your question.

<Q - Camilo R. Lyon>: Hi. Good afternoon, everyone.

<A - Timothy P. Boyle>: Hello.

<Q - Camilo R. Lyon>: You guys just were talking about price increases as a gross margin offset to the higher input costs. Could you share a little bit of the thinking around why you think the price increases will be accepted, especially in the light of some of the clearance product that is currently trying to work its way through the channel?

<A - Timothy P. Boyle>: Well, primarily because we've had success with the merchandise selling through at retail at the prices that we expect them to be at, so we've seen successes in sell-through. We have visibility to about 85% of the selling of our retailers around the United States and so we have that visibility that the product's performing.

<Q - Camilo R. Lyon>: Got it. So is it – am I to read that the price increases are going to be more on the technical product than across the spectrum of the portfolio brands?

<A - Timothy P. Boyle>: Well, we've had price increases on virtually everything that we have been selling over the last several years and we've seen sales rates reasonably active to better. And so, the expectation is that the brand can sustain reasonable price increases, which we believe we've accomplished.

<Q - Camilo R. Lyon>: And did you say what that price increase range was going to be?

<A - Timothy P. Boyle>: No, no. I didn't say, but in fact, I don't think we've talked about what our price increases are as it relates to '12 at all.

<A - Thomas B. Cusick>: And it really varies by region, by product, by category.

<Q - Camilo R. Lyon>: Okay. Fair enough. And then my second question relates – if you could just share a little bit of maybe cadence around the timing of the ERP implementation, and what product categories or what regions will be feeling that first? I know you talked a little bit about that in your prepared remarks with respect to Canada, but maybe a little bit more color would be helpful.

<A - Timothy P. Boyle>: Yeah, I'll ask Bryan Timm, whose managing that project for us, to talk a little bit about it.

<A - Bryan L. Timm>: Yeah, I think, we've commented in the past that we plan on going live with our pilot. In the prepared remarks, we commented that's our Canadian facility. And the cadence there is, as we mentioned, is planned for early spring when they wind down some of their spring shipping and it's minimally disruptive to that business. From there, we've got a cadence with the other geographies. It's not going to be by a product categorical installation. It's going to be by our geographic regions.

<Q - Camilo R. Lyon>: And so when would the U.S. be – when would that part of the business be affected in the U.S.?

<A - Bryan L. Timm>: That's – right now, that's yet to be determined.

<Q - Camilo R. Lyon>: But it's a 2012 event, though?

<A - Bryan L. Timm>: No.

<Q - Camilo R. Lyon>: Okay, so what else in 2012?

<A - Bryan L. Timm>: Right now, our plans are for the Canadian facility to go live and we are currently reviewing whether or not we have other parts of the business that we would want to go live in '12, or whether or not we want to push that to the first part of '13.

<Q - Camilo R. Lyon>: Okay, got it. And then my last question relates to Sorel, obviously, a phenomenal success story there. Can you just talk about how you think about growing the brand, whether it's either SKU growth, channel growth, regional growth, or a mix of all three, and where would you prioritize those growth opportunities?

<A - Timothy P. Boyle>: Well, I think we're going to be continuing to open the stores when we find operations that we think can successfully sell the relatively expensive and certainly fashion forward product. We'll be adding points of distribution. But we're going to be continuing to flesh out a spring initiative. So, we've been successful in growing our spring business. It's still not anywhere near where it needs to be in order to make that brand a year-round brand.

And then, we also have these ancillary products. As I said, slippers, which have been very successful and we want to expand that. But I think at the end of the day, the focus is going to be on continuing to have interesting, innovative, fashion-performance footwear for women and there's lots of opportunity there for us to continue to expand the line size and to continue to push forward with more fashionable and more interesting women's protective product.

<Q - Camilo R. Lyon>: Great. Good luck to you in 2012.

<A - Timothy P. Boyle>: Thank you.

Operator

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

<Q - Liz Dunn>: Hi. Good afternoon. Sorry if I have had some connection problems. I'm in Europe. But I was first wondering about the composition of your inventory. How clean is it heading into first quarter? And then, I was also wondering regarding the ERP program and implementation and some of your cost-cutting initiatives, are there any things that you're delaying as a result of some of this more cost-conscience positioning?

<A - Timothy P. Boyle>: Yeah, this is Tim. So I'll let Tom speak specifically, because he's got some fairly detailed information on the inventory. But suffice it to say that by far, the majority of it is Spring '12 and Fall '11 merchandise, and we have strategic homes for all this stuff, which in the revenues and margin that we expect to make on that are baked into the outlook that we gave you today.

The ERP installation is, as I mentioned in my prepared remarks, one of our focus areas strategically and that will continue to be funded and there won't be any postponement there. But let me have Tom speak to the inventories and then if you had further questions, I can answer those.

<A - Thomas B. Cusick>: Hi, Liz. This is Tom. As I had mentioned earlier and perhaps you missed this, but a little under 90% of our existing inventory is comprised of both Spring '12 and Fall '11 inventory. So, it's very current and clean. And we expect to liquidate that inventory, the excess elements of that inventory, about two-thirds through our retail channel and roughly a third of the excess through our existing wholesale, including the value channel. And the unit volume is actually down, so this is all a function of unit cost and mix.

<Q - Liz Dunn>: Okay. Have you ever shared what sort of recovery rates you get in your own retail stores versus the value channel in terms of liquidating excess inventory?

<A - Timothy P. Boyle>: No, we really haven't, but I can say that our retail margins are quite healthy.

<Q - Liz Dunn>: Okay. Great. And then just in terms of the cost-savings program -again, I apologize, I've just had real connection problems today. So when exactly will these cuts take effect? Because obviously the first quarter guidance versus the year, there's a big delta there. How should we think about the year as we go forward in terms of when we'll reach leverage?

<A - Timothy P. Boyle>: Yeah, many of these reductions are underway. But I think as we look at the business, especially with Q2 being a low volume quarter and just how the anniversary effect of costs have rolled on, particularly in Q1, we would expect SG&A to be flat to downish in the back half of the year. So, most of the measures will be realized more so in the back half than the front half of the year.

<Q - Liz Dunn>: Okay. Great. Thank you so much for taking my question. Good luck.

<A - Timothy P. Boyle>: Thank you.

Operator

Thank you. Our next question comes from the line of Ken Stumphauzer with Sterne, Agee. Please proceed with your question.

<Q - Ken M. Stumphauzer>: Good afternoon, guys. You tired yet?

<A - Timothy P. Boyle>: No way.

<Q - Ken M. Stumphauzer>: Okay. I had just one question, I guess, philosophically on the move from reporting backlogs. It seems like the business really meaningfully changed a couple of years ago when you opened a lot of outlets. So I'm just curious to know if 75%-80% of your business still dictated by backlogs, why the change and then why now as opposed to a year ago or two years ago?

<A - Timothy P. Boyle>: Well, it's a great question because when we began analyzing this, we're really behind in terms of changing the reporting method as it relates to backlog. It's become a much more complex business, adding the geographies and the various kinds of ways that we distribute products.

And frankly, it's just become increasingly a distraction when we describe the business to investors because we have to constantly recalibrate the backlog against the future business specifics. And I think as we began to install this SAP system, it really showed us that we're just in the process of trying to make the business more understandable for investors at the end of the day.

And I know Tom's got maybe some additional information that might help, but it just really is about making sure that our investors follow the business the way we manage it, and backlog for us internally was just becoming a really minor part of how we manage the business.

<A - Thomas B. Cusick>: Yeah. We've put a lot more thought and effort and thinking into the quarterly outlooks that we provide the investment community on a quarterly basis, with all the variables, cancel rates, replenishment programs, the direct-to-consumer business, the timing shifts with the distributor business. All those moving parts have lead us to believe that staying with the quarterly outlook solely is a more relevant way to communicate with investors and hopefully significantly less confusing going forward.

<Q - Ken M. Stumphauzer>: Okay. And then, my next question was regarding kind of backlogs or the way business you think is going to be planned next year. A lot of what we heard at Outdoor Retailer is that retailers were kind of looking at the business myopically, and were ultimately planning on ordering backlogs on the basis of what sell-through was in 2011. And it appears as if sell-through was obviously meaningfully less than what most people had anticipated entering the year. So I'm curious to know if you feel that more of the business next year will be replenishment-driven, and hence a little bit more unpredictable or if you think it's going to adhere to kind of historic rates?

<A - Timothy P. Boyle>: Well again, we have the visibility of our order book today, and we see conservatism, as you recognize. When we talk about the outlook for the year, we see conservatism as it relates to the purchases and we know intuitively what our own revenues are going to be from our own direct-to-consumer business and so that's analyzed together with our expectations for the future and on a customer-specific basis, going all the way through the detail and that's how we drive the business and drive the outlook as we've given you today.

The outlook today is, frankly, the same methodology that we've used for many, many years. It's just when we add in the backlog coefficient, it just ends up being a reconciliation nightmare for our investors so that we can take the timing and all the other components out. At the end of the day, it just got just a distraction and a more difficult way to look at the business.

<Q - Ken M. Stumphauzer>: I guess what I'm asking at the end of the day is whether there's different assumptions than you would make historically regarding replenishment rates, just assuming that things move back to more normal weather patterns or if you feel like things are going to kind of hold where they've been historically and hence there's an element of conservatism in it.

<A - Timothy P. Boyle>: We've used the same methodology we've used for many, many years to create today's outlook. So, nothing's really changed, but backlog is a diminishing factor and we felt it was important to make sure investors knew that by removing it.

<Q - Ken M. Stumphauzer>: Okay. And then just one last question, if I can. Obviously, there was a significant proliferation of Omni-Heat SKUs in 2011 and it unfortunately happened to coincide with unfavorably warm weather. So there's obviously been a decent amount of markdowns at retail. Inventories are little bit inflated. I wonder if there's any concern that perhaps some of the momentum that you guys have managed to build over the past couple years could be tapering off, just given the markdown activity.

<A - Timothy P. Boyle>: No. Omni-Heat was among the best selling merchandise that our retailers had from us. And really, when they compared it against merchandise they had from others, it was still very, very good. So whoever bought it on markdown here late got a good deal, but we're very excited about it and so are our retailers.

<Q - Ken M. Stumphauzer>: Thanks guys, best of luck.

<A - Timothy P. Boyle>: Thanks.

Operator

Thank you. [Operator Instructions] Our next question comes from the line of [ph] Bill Desellum with Tittan Capital Management (62:47). Please proceed with your question.

<Q>: Thank you. Would you please discuss the magnitude of order cancellations that you experienced in the fourth quarter and what you're seeing so far here in the first quarter?

<A - Thomas B. Cusick>: Yeah. This is Tom. So I would say, as you can probably imagine, given that we've just come through 2009 and '10, two of the best winters in many, many years, so our cancel rates were quite low in both of those seasons compared to the winter that we've just come through where our cancel rates have increased, which has driven the increased close-out activity in Q4 and Q1 of 2012.

<Q>: And presumably, those cancellation rates were higher-than-normal versus the lower-than-normal in the prior couple years?

<A - Thomas B. Cusick>: I think that's an accurate assessment.

<Q>: And so your ability to get the units in inventory to actually be down, that was a result of the discounting that you were doing?

<A - Timothy P. Boyle>: No, that's a function of the higher input costs over the last several years where we've had a higher dollar-denominated inventory than unit-denominated.

<A - Thomas B. Cusick>: As well as just the mix of product, outerwear and higher value cold weather footwear.

<Q>: All right. Thank you.

Operator

There are no further questions at this time. I'd like to turn the floor back over to management for closing comments.

Timothy P. Boyle

Thank you very much for listening in. We appreciate your help and support and we will talk to you in April.

Operator

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