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# Columbia Sportswear Co. *(COLM)*

Q1 2013 Earnings Call

## CORPORATE PARTICIPANTS

**Ron Parham**

*Senior Director-Investor Relations, Columbia Sportswear Co.*

**Gertrude Boyle**

*Chairman, Columbia Sportswear Co.*

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

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## OTHER PARTICIPANTS

**Bob S. Drbul**

*Analyst, Barclays Capital, Inc.*

**Darla J. Shay**

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

**Elizabeth Dunn**

*Analyst, Macquarie Capital (USA), Inc.*

**Lindsay Drucker Mann**

*Analyst, Goldman Sachs & Co.*

**Katharine McShane**

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**Corbin Nicholas Weyer**

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**Andrew S. Burns**

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## MANAGEMENT DISCUSSION SECTION

**Operator:** Greetings. And welcome to the Columbia Sportswear First Quarter 2013 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, who is the Senior Director of Investor Relations and Corporate Communications for Columbia Sportswear. Thank you, Mr. Parham. You may begin.

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### Ron Parham

*Senior Director-Investor Relations, Columbia Sportswear Co.*

All right. Thanks, Bob, and good afternoon and thanks for joining us today. Earlier this afternoon we announced first quarter financial results and our revised outlook for 2013. In keeping with our standard practice, we also furnished an 8-K containing a detailed CFO commentary on the results, and posted that commentary on our Investor Relations website for listeners to review prior to this conference call.

With me today are our president and CEO, Tim Boyle; Senior Vice President and Chief Financial Officer, Tom Cusick; Executive Vice President and Chief Operating Officer, Brian Tim; and Senior Vice President and General Counsel, Peter Bragdon. I'll ask our Chairman, Gert Boyle, to cover the Safe Harbor language.

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### Gertrude Boyle

*Chairman, Columbia Sportswear Co.*

Good afternoon. This conference call will contain forward-looking statements regarding Columbia's business opportunities and anticipated results of operations. 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, 2012, and subsequent filing with SEC. Forward-looking statements in this conference call are based on our current expectations and beliefs, and we do not undertake any duty to update any of the forward-looking statements after the date of this conference call to conform the forward-looking statements of actual results or to changes in our expectations.

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### Ron Parham

*Senior Director-Investor Relations, Columbia Sportswear Co.*

Thank you, Gert. And I'll turn the call over to Tim.

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### Timothy P. Boyle

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

Thanks, Ron. Welcome, everyone, and thanks for joining us this afternoon. Our better than expected first quarter results, including a 5% increase in net sales, operating margin expansion of 210 basis points and 159% increase in net income to \$10.1 million from \$3.9 million in last year's first quarter may appear on the surface contradictory to the slight downward revision to our full-year outlook we announced today. In fact, these results are consistent in illustrating the weather-driven volatility of our current businesses.

While the recent cold weather clearly benefited our first quarter results, our full year outlook reflects the caution exhibited by our North American wholesale partners as they placed fall 2013 advance orders following two

consecutively warm fourth quarters. We expect the wholesale portion of our North American and European direct business to contract in 2013, partially offset by continued growth in our North American direct-to-consumer business and our EMEA direct – excuse me, EMEA distributor business led by Russia.

We expect declines in the Latin America, Asia-Pacific region following two years of rapid growth; driven by a decline in Japan resulting primarily from a significantly weaker yen, the effects of transitioning to a joint venture in China, and the transition to a new distributor in Australia. From a brand perspective, we expect full year 2013 Columbia and Mountain Hardwear sales to be comparable to 2012, while Sorel, our most weather-sensitive brand, is expected to decline modestly.

We're proud of the brand positions we've established, and have every intention of utilizing those brands to remain a global leader in cold weather apparel, footwear and accessories. However, at the same time, our vision is to become better recognized as a provider of market-leading products that help consumers manage all of the climactic elements they encounter whenever and wherever they go outside, any time of the year.

We made an important step towards that vision earlier this month with the April 5 global launch of Omni-Freeze ZERO and Cool.Q ZERO, our innovative sweat-activated cooling technology deployed in the Columbia and Mountain Hardwear brands, and supported by the largest spring marketing campaign in our history. We are encouraged by the responses we're seeing from consumers who have experienced Omni-Freeze ZERO, particularly in the southern U.S. where our Omni-Freeze tour trucks have provided live demonstration of its cooling properties.

Additionally, thousands of our retail partners around the world have been supplied with a total of nearly 2 million Omni-Freeze ZERO demonstration sleeves, allowing dealers to perform the same demonstration at the point of sale. We've seen the best early selling – excuse me, early sell-throughs in specialty outdoor channels that cater to our loyal PFG, which is Performance Fishing Gear consumers, especially in Gulf markets where the weather has been warm.

Although it's still very early, we expect demand for Omni-Freeze and Cool.Q ZERO to increase as summer spreads to more parts of the northern hemisphere. Over the next several years our goal is to establish ZERO as a new franchise to add to our existing portfolio of franchise collections like Omni-Heat, PFG and OutDry.

We'll continue to focus our seasonal marketing efforts around these differentiating, innovative technologies. During our fourth quarter conference call in February, I spoke about the renewed efforts to drive demand for our innovations by designing our products at more accessible price points, where the Columbia brand excels, while maintaining distribution discipline and channel segmentation.

While we don't expect to see significant benefits until spring 2014 and further in fall 2014, we are encouraged by the steady progress we're making on this initiative. We also remain focused on improving our inventory planning and purchasing processes in order to reduce the level of promotional activity necessary to liquidate end of season goods. We're forecasting inventory levels to remain below last year's level throughout 2013, as evidenced by the 11% decline at the end of the first quarter.

In Europe, we have taken several steps during the first quarter to address our persistent under performance in Europe direct markets. First, we moved Doug Morse, a long time Columbia employee and most recently, General Manager of our Canadian region, to serve as Interim General Manager of our Europe direct operations.

We also took the difficult, but necessary, step of downsizing the European staff and we recently closed our branded retail store in Munich, Germany. These actions were the primary components of the \$2.4 million

restructuring charge we recorded in the first quarter and an additional \$1.7 million that we will recognize in the second quarter.

While some of our under performance in Europe is a function of the difficult macroeconomic environment, there are many areas within our control that we are determined to improve. I'm confident in Doug's ability to work closely with me and the rest of the European leadership team to continue making those improvements and to continue evaluating the cost structure of the business while we strive to improve our results.

I'll conclude my prepared remarks with a few comments about our plans to transition to a 60/40 joint venture in China with Swire Resources beginning January 1, 2014. When we announced these plans in August 2012, we noted that Swire has done a spectacular job establishing Columbia as a leading outdoor brand during the 10 years that they've been our exclusive distributor in China. Since then, they've concluded another successful year growing sales at a rate of more than 20%, with more than \$150 million in 2012 and generating double-digit EBITDA. We're looking forward to partnering with the Swire team and adding this new growth engine to our business beginning in 2014.

As we've begun transitioning to the joint venture, we have started to defer income and incur certain costs. The CFO commentary that we published before today's call contains an explanation of how we expect pre-operating costs and the deferral of income to affect our 2013 financial results. If you have not already done so, I strongly encourage you to read the entire commentary, paying special attention to China joint venture section beginning on Page 4. You'll find the commentary on our Investor Relations website at [columbia.com/investor](http://columbia.com/investor).

That concludes my prepared remarks. Operator, could you please help us with Q&A?

## QUESTION AND ANSWER SECTION

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

**Bob S. Drbul**

*Analyst, Barclays Capital, Inc.*

Q

Hi. Good afternoon. Good evening.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Hi, Bob.

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

Hi, Bob.

**Bob S. Drbul**

*Analyst, Barclays Capital, Inc.*

Q

I guess the first question is I'm not sure if I saw it, but can you give us an idea of how much of there was a shift from Q2 into Q1 on the revenue side?

**Timothy P. Boyle***President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Yeah, Tom?

**Thomas B. Cusick***Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

In terms of the distributorship, Bob, it was in the mid- to high-single digit millions of dollars from Q4 to Q1.

**Bob S. Drbul***Analyst, Barclays Capital, Inc.*

Q

Got it. And overall when you – Tim, when you look at your – the outlook from where it was three months ago to where we are today, did you receive more cancellations on a – from the time that you gave us the last update? And can you talk a little bit about the overall outerwear market and sort of where you see the market numbers shaking out this year in terms of declines, market share positioning for Columbia right now?

**Timothy P. Boyle***President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Sure. Well, we have not received cancellations from our – from – in any amount – any subsequent amount in the last four months. We've seen – we're talking about for fall 2013 now, right?

**Bob S. Drbul***Analyst, Barclays Capital, Inc.*

Q

Yes.

**Timothy P. Boyle***President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

The outlook that we gave you today is really predicated on the conservative future view our customers have as it relates to weather. I think there's no question that our customers for the most part are suggesting that they are going to be declining their outerwear open-to-buys and weather sensitive product open-to-buys by 10% to 15% for fall 2013, with the expectation that they'll be able to chase the business if the weather arrives. So that's what we're looking at from a North America standpoint.

In terms of market share, I think even though our bookings would show that we have a high percentage of more moderate temperature apparel, meaning outerwear that's designed for more moderate temperatures rather than extreme temperatures. The percentage there has declined in the extreme weather-sensitive apparel, but it's never been more than about 20% historically, so it's declined from that percentage. As it relates to market share I think we've been close to holding market share, but it is possible that we've lost some to other makers of lighter-weight apparel. Does that answer your question Bob?

**Bob S. Drbul***Analyst, Barclays Capital, Inc.*

Q

Yes it does.

**Thomas B. Cusick***Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

And Bob, this is Tom. Just one correction; I think I said mid-single digit. I meant mid-teen millions of dollars shift from Q4 to Q1.

**Bob S. Drbul**

*Analyst, Barclays Capital, Inc.*

Q

Okay. And Tim, could you talk a little bit about – I mean a lot of the change going on at JCPenney, and any discussions that you've had with JCPenney and the Columbia brand and any different outlook from that perspective from the Columbia business?

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Well, we try and avoid any specific conversations that we have about particular customers. But I can tell you in general our expectations are that our business with that customer will be more challenging for the foreseeable future.

**Bob S. Drbul**

*Analyst, Barclays Capital, Inc.*

Q

Great. Thank you very much. Good luck.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Thanks.

**Operator:** Thank you. Our next question comes from the line of Christian Buss with Credit Suisse. Please proceed with your question.

**Darla J. Shay**

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Q

Hi. Thank you. This is Darla Shay on for Christian. Thank you for taking my call. You talked about strong early reception to the Omni-Freeze ZERO. I was just wondering how many doors is it in now? And how should we think about the product rollout going forward?

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Well, Darla, I don't have for you the number of doors globally, but it would be – it should be approaching 10,000, in that range or maybe even slightly larger. The rollout has been as planned. We have activations planned in many of the doors, all the important ones really, where we actually have consumers experiencing through these Omni-Freeze ZERO sleeves the cooling effects of the product and it's demonstrated by a human being.

So we've got the most intelligence about the USA market where we have started earlier than in the rest of the world on the demonstration and the rollout. And we've seen successes in the Gulf States; primarily where our PFG, our Performance Fishing Gear, penetration is the highest. The expectations are quite high and we have plans for a broader, more democratically priced version of this innovation for spring 2014, so we're excited about the potential.

**Darla J. Shay**

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Q

All right, great. Thank you. That's helpful. And then, I understand sort of the revenue side of your guidance coming down slightly, but the new guidance assumes a flat gross margin from your preliminary outlook for slightly up. Could you just walk us through the changes in that assumption? And maybe through, is it product costs up potentially, markdowns?

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

No, it's really a function of the full price wholesale business coming down slightly, relative to the prior guidance, predominantly related to the North American and European wholesale business.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Yeah, and to some degree, further weakening in the Japanese yen. I would say that, in and of itself is really the biggest driver of the year-over-year change in the guidance, is the further weakening of the yen.

**Darla J. Shay**

*Analyst, Credit Suisse Securities (USA) LLC (Broker)*

Q

All right, thank you. That's very helpful. Best of luck.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Thanks.

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

**Elizabeth Dunn**

*Analyst, Macquarie Capital (USA), Inc.*

Q

Hi, thank you for taking my question. I guess the first question is just a follow-up to an earlier question. So there's no shift, per se, impacting the second quarter and then as we look out to the third and fourth quarter, it seems like fourth quarter might be a little bit lower because of the loss of the China, or how the China revenues are flowing? Is that the right way to think about it, or could you just help us with quarterly flow of revenue?

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

Yeah, it relates to Q4. You're correct with regard to the China deferral negatively impacting the top line there and then there is a shift between Q2 and Q3 with more of our EMEA distributor business shifting from the second to the third quarter. So I would say that's the biggest driver in the decline in year-over-year Q2 revenue.

**Elizabeth Dunn**

*Analyst, Macquarie Capital (USA), Inc.*

Q

Okay. And how much is that? What...



**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

I would say that's in the, that's in the low \$20 million range.

**Elizabeth Dunn**

*Analyst, Macquarie Capital (USA), Inc.*

Q

Okay, great. In terms of the business, the health of the Footwear business, can you just sort of provide an update on how you're feeling, I mean obviously, weather has been a major impact, but how are you feeling about where the business is positioned, putting weather aside?

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Based on my high expectations for this category of merchandise, which are quite high, we think we're moving along the right path as it relates to merchandise, which is less weather sensitive. However, the combination of the Sorel business, which is almost exclusively weather dependent, and the heavy dependence and success in the Columbia brand on winter footwear, it's depressing those otherwise improving results. So I think we're on the right track. I think we have the right team there. And the expectations for me are high. But we're not able to circumvent this weather issue.

**Elizabeth Dunn**

*Analyst, Macquarie Capital (USA), Inc.*

Q

All right. And then just one more if I may. In terms of expense control you sort of touched on it in your prepared comments. But can you just give a more robust explanation of sort of where things stand, how much more expense reduction is there to be had, if any, and sort of what are some areas for future opportunity, if any?

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

Yeah, Liz, this is Tom. I would say SG&A is an area that we – all forms of discretionary spend we manage diligently on an ongoing basis. You know there's always room for improvement there. We feel like we've done a pretty good job over the last year, particularly last year. And you know we felt it was important this year to reinstate our compensation and benefit programs after not having increases last year. And I would say the biggest driver of what's driving the expense growth, excluding the pre-operating costs for China; and the restructuring charges are the increase in the direct-to-consumer business. So that's the biggest component of the increase.

**Elizabeth Dunn**

*Analyst, Macquarie Capital (USA), Inc.*

Q

But the increase is relatively you know minimal. So are there other things that are down year-over-year, I would imagine?

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

Well, obviously we're getting some benefit from translation of currency. So I would say that's the biggest offset in addition to the cost reductions that we put in place last year that we realized – and you could see in the year-over-year comps in Q1.

**Elizabeth Dunn**

*Analyst, Macquarie Capital (USA), Inc.*

Okay. Great. Thank you. Good luck.

Q

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

Hey, Liz, just one further comment. You know I think we've all realized that the business is operating and, frankly, not performing as well as it needs to on the top line. So the focus, now that we've concluded the SG&A reductions that we felt were appropriate, the focus for the management team here has been on growing the business from the top line. We don't have much to show for it now, but that's where we're focusing our time and effort. And at the end of the day that's going to reflect much better on the business than further cost cutting.

A

**Operator:** Thank you. Our next question comes from the line of Lindsay Drucker Mann with Goldman Sachs. Please proceed with your question.

**Lindsay Drucker Mann**

*Analyst, Goldman Sachs & Co.*

Hi. Good afternoon everyone.

Q

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

Hey.

A

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

Hello.

A

**Lindsay Drucker Mann**

*Analyst, Goldman Sachs & Co.*

I just – just to kind of go back to Bob's original question, when we look at the delta in your revenue guidance now, versus last quarter, you had always been expecting a cautious order pattern from your wholesale partners and kind of the text in the CFO comments really didn't change much, so if you could rank order to what the big drivers of your slightly lower view on revenues versus when you initially gave guidance, between U.S. wholesaler patterns, you mentioned Europe and lack of drivers in this text and you hadn't last time around, and I guess maybe currency. What's the biggest delta versus what you had thought last quarter?

Q

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

Yeah, I would say number one would be Europe. Number two, we're in the midst of transitioning our Australian distributor business; that wasn't fully contemplated 90-days ago and then, also as well, is the further weakening of the yen. So those are really the main drivers.

A

**Lindsay Drucker Mann**

*Analyst, Goldman Sachs & Co.*

Okay, and as you think about really your wholesale partners being cautious, that really hasn't changed versus where we were a quarter ago?

Q

**Timothy P. Boyle***President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

No.

**Lindsay Drucker Mann***Analyst, Goldman Sachs & Co.*

Q

I mean are they incrementally more cautious? Or they're still as cautious as you thought?

**Timothy P. Boyle***President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

No, I think we expected caution from them and we got it.

**Lindsay Drucker Mann***Analyst, Goldman Sachs & Co.*

Q

Okay, and then on the European business, can you, do you have sort of a preliminary plan on the path to recovery in that market? I know you talked about some of the restructuring initiatives, but how do we see ultimate improvement off of the depressed revenue and margin levels we're at?

**Timothy P. Boyle***President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

I would say at a very high level we need to get the merchandise – we need to get an approved offering of merchandise there that can be more relevant to that marketplace. That's the primary goal. We continue to monitor the situation as it relates to our investment there, both from fixed assets and variable costs, and our expectation is that we'll be able to put together a compelling product offering which will get us back to growth again.

Again, our focus has been on getting the business to the size we believe is appropriate from a cost standpoint and then focus heavily on improving the top line. And so that'll be a combination of the product offering modifications, which are well underway, and people improvements. As we said, we sent one of our best managers, a longtime employee there, to help us get that business turned around and our expectation is that we'll be able to do that.

**Lindsay Drucker Mann***Analyst, Goldman Sachs & Co.*

Q

Okay, thanks. And then just lastly, can you give us, if we were to pull spot rates forward, what – or whatever's embedded in your guidance, what the FX drag is on revenue and profit?

**Thomas B. Cusick***Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

In terms of rates? Or overall impact?

**Lindsay Drucker Mann***Analyst, Goldman Sachs & Co.*

Q

Yeah, the...

**Thomas B. Cusick***Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

So the year-over-year impact of currency's about \$0.12, of which \$0.08 would be the back half, \$0.04 would be the front half.

Lindsay Drucker Mann

*Analyst, Goldman Sachs & Co.*

Q

Okay. And then in terms of – on revenue, the rate of – the percentage...

Thomas B. Cusick

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

It's about 1.5%; call it \$25 million.

Lindsay Drucker Mann

*Analyst, Goldman Sachs & Co.*

Q

Okay. Thanks very much.

**Operator:** Thank you. [Operator Instructions] Our next question comes from the line of Kate McShane with Citigroup. Please proceed with your question.

Katharine McShane

*Analyst, Citigroup Global Markets Inc. (Broker)*

Q

Thanks. Good afternoon.

Timothy P. Boyle

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Hey, Kate.

Thomas B. Cusick

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

Hi, Kate.

Katharine McShane

*Analyst, Citigroup Global Markets Inc. (Broker)*

Q

Hi. I just have two questions with regard to the winter business and the warmer – the cold weather apparel business. I think, Tim, if I heard you correctly, you had highlighted that maybe you had lost some shares of – maybe lost some share. Is that because you don't – you didn't have as much lighter-weight outerwear product? And if that's the case, how are you addressing that for this upcoming winter?

Timothy P. Boyle

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

No. I think we had the right – the appropriate amount of lightweight product. You know the fleece business, which for all intents and purposes is lightweight outerwear, is probably the company's largest category from a unit standpoint by far and away. I think what we saw was just a reduction in purchases of heavyweight apparel where the company's had, call it, 20% of its business historically. And I think you know the market shares in these – in this business is so hard to calculate just based on the data that's available. It could be that we had some market share loss. But at the end of the day we think we're – we had the appropriate merchandise offering.

Our customers picked the appropriate kinds of inventory from our collections, but they just picked a lot less of it because they're open-to-buys for these weather-sensitive categories, including cold weather apparel and especially cold weather boots, really depressed the results for us for this year in 2013. Are we going to improve for 2014? I think absolutely. But you know the weather impact is still significant.

Katharine McShane

*Analyst, Citigroup Global Markets Inc. (Broker)*

Q

Okay. And thanks. And then one question on Europe; I know the focus of the turnaround is on your direct business, but can you update us at all about what you're thinking with your distributors in Europe? It sounds like they might be outperforming the direct business and what do you think is the main differences between the two businesses?

Timothy P. Boyle

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Well, our biggest business in Europe on the distributor basis is in Russia. And our Russian distributor has a significant component of their own retail business as well as a Columbia franchise business where they can direct the offering in a much more focused way. And the Russian weather was frankly spectacular for our kinds of business last year so those two things really in combination made the business better in Russia than we otherwise would have had.

Katharine McShane

*Analyst, Citigroup Global Markets Inc. (Broker)*

Q

So will there be any change to the product offering now that the distributors are selling currently like you will do in the direct business?

Timothy P. Boyle

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

No. The process is we prepare a global line. We have an offering that's filtered by numerous merchants that work the lines here and our Russian distributor is able to pick from that selection of product. But they've been much more focused on sort of the moderate price points as opposed to where we've been operating globally when we've been directing our sales people at a higher level.

Katharine McShane

*Analyst, Citigroup Global Markets Inc. (Broker)*

Q

Okay. Thank you.

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

Corbin Nicholas Weyer

*Analyst, Robert W. Baird & Co. Equity Capital Markets*

Q

Yeah. Thanks for taking my question.

Timothy P. Boyle

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Sure.

**Corbin Nicholas Weyer**

*Analyst, Robert W. Baird & Co. Equity Capital Markets*

Q

I have just a quick one; I just wanted to dig a little bit more into the second quarter revenue guidance and seeing that you guys are talking about U.S. wholesale down. With that in mind what's kind of incorporated into that guidance in terms of an at-once order perspective? Is there opportunity there – I guess, given the late start to spring that we've seen here, I'd imagine that there's probably some pent up demand out there for some of your products.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Yeah. We've had – as we've talked about the weather sort of greatly this quarter, it's been colder and it's been helping our winter product, not necessarily from an expanded margin standpoint for our retailers but they've certainly been able to liquidate more inventory there. We think that we're in the right positions as it relates to our spring product for the balance of the year and our customers – typically, for us, spring is like a net zero re-order business. So the expectation for us, regardless of this particular spring's temperatures, is for the U.S. business to provide just about a zero re-order basis.

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

Yeah. The biggest creator of volatility in Q2 is the timing of our distributor shipments that really straddle Q2 and Q3 so they can ship in either quarter's in a given year and that's what's really driving a downward comp in year-over-year Q2 sales this year. And again, that's that EMEA distributorship in the low \$20 million range that I alluded to earlier.

**Corbin Nicholas Weyer**

*Analyst, Robert W. Baird & Co. Equity Capital Markets*

Q

Sure. That's helpful. Thank you. That's all I had.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Thanks.

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

**Andrew S. Burns**

*Analyst, D. A. Davidson & Co.*

Q

Thanks. Good afternoon. I wanted to follow-up on a comment which I think I heard earlier about you guys wanting to take pre-book down I think it was a 10% to 15%, I think that was maybe an industry or something like that, but wanting to chase business as the cold weather arrives. I'm sure your average outdoor retailer would love outerwear to be more of an at-once business. Obviously that's tough to do from your standpoint. So given the two consecutive winters, is the business changing at all more towards at-once? Is there any potential competitive advantage to take a little bit of inventory risk to try to capture sales upside in these cold weather years? Thanks.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Certainly. Well, Andrew, I've been around this business for a long time, and I hate to even think about how long. But with these kinds of weather abnormalities, I remember back when the dinosaurs were still here, but these kinds of weather abnormalities if they happen a couple years in a row tend to become fact in retailers' minds. So it's not unusual for them to take sort of a broad view of categories of merchandise and reduce the open to buys for those. So that's what we've seen is that the retailers have basically said okay, we're not going to invest as heavily in cold weather footwear and in outerwear as we have in the past, and we'll chase that.

So because the outerwear and cold weather footwear businesses require long lead times from our Asian sourcing, we have to take a position, and that's what we've got. So we've reflected on where we believe the business will go this year and what the open to buys will be for the balance of this year, and we've taken what we think is the appropriate position on inventories.

Yes, retailers would love to have an at-once business as it relates to outerwear, but it's just one of those kinds of categories that it's not available. So, if we have a spectacular weather year for the company, which would be cold weather early, we won't have a significant increase in the top line, but we will have an improvement in our gross margins. So that's how we have run the business historically, and that's how we expect this year will play out, depending on the weather.

**Andrew S. Burns**

*Analyst, D. A. Davidson & Co.*

Q

Great. Thanks. And during the call you mentioned some shifting of management around and a focus on some improvements there. Are there any plans to increase hiring of additional Senior Executives? Perhaps I missed it, but since Rick's departure there was talk of maybe a couple of new positions being created and I just didn't see that occur. Just looking for an update there. Thanks.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Certainly. Well yeah, as we said, when Rick departed we weren't going to replace his position directly. So we're going to be adding people over time to help us improve the business and we're taking some time to make sure that we have the right candidates identified and there'll be more news on that happening as we make additions.

**Andrew S. Burns**

*Analyst, D. A. Davidson & Co.*

Q

Great. Thanks.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Thanks.

**Operator:** Thank you. [Operator Instructions] Our next question comes from the line of Mark DeVaul with The London Company. Please, proceed with your questions.

**Mark E. Devaul**

*Portfolio Manager, London Co. of Virginia*

Q

Hey, guys. Good afternoon.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Hi, Mark.

**Mark E. Devaul**

*Portfolio Manager, London Co. of Virginia*

Q

I was wondering if you could talk about your longer-term capital allocation decisions. I mean you have a strong balance sheet. You're generating cash. Specifically, how open you are to share repurchase or maybe bumping up the dividend yield over time?

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

Yeah. Mark, this is Tom. March 31 is typically – the March-April timeframe is typically the peak of our annual operating cash as we collect our wholesale receivables from the winter months. So we would expect cash to decline seasonally like it has historically from March forward. With that being said, we intend to generate roughly \$85 million in free cash flow this year. And we'll begin to fund our China JV beginning this quarter through the first quarter of next year with that funding comprising about \$50 million. And most of that will come from cash domiciled offshore. With that being said, at any given time, 30% to 40% of our cash is held offshore. So if we were to repatriate that it would cost us significantly from a tax perspective. We've got the buyback. We've got \$58 million available under that. We've got the dividend program and we've got M&A opportunity.

**Mark E. Devaul**

*Portfolio Manager, London Co. of Virginia*

Q

Okay. Thank you very much.

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

**Robert F. Ohmes**

*Analyst, Bank of America Merrill Lynch*

Q

Hey, Tim. How are you?

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Good, Robby.

**Robert F. Ohmes**

*Analyst, Bank of America Merrill Lynch*

Q

Hey could you remind us once you get – once you take over the China JV just what the multiyear ramp-up could look like in 2014 and beyond? How many full line stores could you be doing? Are you going to be doing a lot of outlet stores in China? You know if you could just walk us through what sort of the three-year plan, 2014 through 2016, looks like.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A



Yeah. Robby, we really haven't talked at all about 2014. You know we've walked through what the plan is as it relates to 2013 for China and the expectation is that we will continue to grow on the same cadence. It won't change the nature of the operation there. In other words, we don't have very many outlet stores. It's almost all full-price stores. And so the expectations are for continued expansion in that market, even though there's been some slowing. But maybe I might just ask Tom to give you a little bit more color.

**Thomas B. Cusick**

*Chief Financial Officer & Senior Vice President, Columbia Sportswear Co.*

A

Yeah, Robby. That business did just over \$150 million last year. It grew over 20%, generated low double-digit EBITDA margin. We expect healthy growth in 2013. It's about 75% wholesale, 25% retail. Currently we don't anticipate that changing dramatically. There are roughly 80 company-owned stores and several hundred, 500 plus, dealer operated rooftops in that marketplace today.

**Robert F. Ohmes**

*Analyst, Bank of America Merrill Lynch*

Q

Thanks. That is very helpful.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

A

Thanks.

**Operator:** Thank you. There are no further questions at this time. I'd like to turn the call back over to management for closing comments.

**Timothy P. Boyle**

*President, CEO, Director & Executive VP-Global Sal, Columbia Sportswear Co.*

Well, we thank you all for listening in and we appreciate your attention. We'll be back to you in about three months. Thank you.

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

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