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Under Armour, Inc. (UAA) CEO Kevin Plank on Q3 2019 Results - Earnings Call Transcript

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Q3: 11-04-19 Earnings Summary

Press Release

EPS of $0.23 beats by $0.04 | Revenue of $1.43B (-0.94% Y/Y) beats by $13.94M

Earning Call Audio

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Under Armour, Inc. (NYSE:UAA) Q3 2019 Results Earnings Conference Call November 4, 2019 8:30 AM ET

Company Participants

Lance Allega - Senior Vice President, Investor Relations and Corporate Development

Kevin Plank - Chairman, President and Chief Executive Officer

Patrik Frisk - President and Chief Operating Officer

David Bergman - Chief Financial Officer

Conference Call Participants

Alexandra Walvis - Goldman Sachs

Jonathan Komp - Robert W. Baird

Erinn Murphy - Piper Jaffray

Randy Konik - Jefferies

Edward Yruma - KeyBanc Capital Markets

Robert Drbul - Guggenheim Securities

Jim Duffy - Stifel Nicolaus

Paul Lejuez - Citigroup

Jay Sole - UBS

Omar Saad - Evercore ISI

Jared Orr - Cowen and Company

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Under Armour, Inc. Third Quarter Earnings Webcast and Conference Call. At this time, all participants are in a listen-only mode. After the speaker presentation, there will be a question-and-answer session. [Operator Instructions]. Please be advised that today's conference is being recorded. [Operator Instructions].

I would now like to hand the conference over to your speaker today, Mr. Lance Allega, Senior Vice President of Investor Relations. Thank you. Please go ahead, sir.

Lance Allega

Thank you and good morning everyone joining us for Under Armour's third quarter 2019 results earnings call. On today's call, participants will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to differ materially. These uncertainties are detailed in this morning's press release and documents filed regularly with the SEC, all of which can be found on our website at about.underarmour.com.

We may reference certain non-GAAP financial information including adjusted and currency-neutral terms, which are defined in this morning's release. We do use non-GAAP amounts as the lead in some of our discussions because we feel that they more accurately represent the true operational performance and underlying results of our business.

You may also hear us refer to amounts in accordance with US GAAP. Reconciliations of GAAP to non-GAAP measures can be found in the supplemental financial tables included in the press release, which identify and quantify all excluded items and provide management's view of why this information is useful to investors.

Joining us on today's call will be Under Armour's Chairman and CEO, Kevin Plank; President and COO, Patrik Frisk; and Chief Financial Officer, Dave Bergman. Following our prepared remarks, we'll open the call for questions.

With that, I'll turn it over to Kevin.

Kevin Plank

Thanks, Lance. And good morning, everyone. I'd like to start today's call by touching on the announcement we made a couple weeks back that effective January 1, 2020, I will be transitioning to Under Armour's Executive Chairman and Brand Chief and Patrik Frisk will become our Chief Executive Officer.

This was my decision and the culmination of a rigorous approach to succession planning in partnership with our Board of Directors. Patrik's proven command of this business and the confidence we have about Under Armour's prospects as we shift from defense to offense.

Inside the most transformative three-year chapter in our history, as my direct partner, Patrik has helped strengthen the foundational elements of our current vision, mission, and values, and co-architected the strategic playbook we are currently executing against.

His demonstrative, transparent style of leadership, centered around a clear strategic vision, unparalleled discipline, and an outright passion for our brand positions us smartly to reach our goal of making Under Armour the best athletic brand in the world. This transition will empower Patrik to have the freedom and oversight to holistically execute against our playbook.

Now, anchored by our strategic pillars of product, story service and team, we have been decisive in proactively improving underperforming areas of our business, while balancing the investments necessary to deliver sustainable, profitable growth over the long term.

And just like the athletes we serve, this journey is about getting better – better for our teammate, consumers, customers, and our shareholders.

At the center of this pursuit, the very reason we exist is our mission. Under Armour makes you better. A humble passioned obsession that has fueled our company for nearly a quarter of a century. I am extremely proud of the powerful brand we have built, the global team that is our family, and the athletes we continue to serve by equipping and inspiring them to push beyond the boundaries of what is possible.

Being Under Armour means showing up with integrity every day, strapping on your HOVR Infinites, putting in the work, recognizing the scars while learning from them, celebrating the wins and looking to tomorrow where the hard work helps you get a little bit stronger, faster, and smarter.

All of this, of course, centers around three critical aspects of the brand – making great product that is authenticated to the power of sport, magnified by incredible storytelling and delivered by a team that loves this brand.

These three things define who we are, how we show up, and ultimately how we will maximize our long-term potential. And moving forward, in my new role as brand chief, these are the areas where I will be focused to help reignite our growth.

Now, looking at 2019, we continue to execute the play with patience and discipline. From a product perspective, with performance innovations like UA HOVR, Rush, and Recover, we know that when our product delivers SPF – that's Under Armour’s style, performance, and fit – we win with athletes.

Armed with a shortened go-to-market calendar, increasingly better segmented assortments, and a clear pipeline of innovation to come, we are building an arsenal that will continue to demonstrate why Under Armour is a choice alternative in an otherwise commoditized marketplace.

From a brand and storytelling perspective, where seamless physical and digital connectivity is table stakes for our consumer engagement, we have been working diligently to better activate our assets to drive the highest returns.

At the moments of training, competition, and recovery, we continue to see great potential in our ability to better personalize consumer touch points through a sharper, data-driven point of view.

And while we’ve certainly realized some success in product-specific marketing efforts over the past couple of years, 2020 will be the first year since our transformation began that we will have the ability to put the right resources combined with the scale behind our brand marketing efforts.

In 2020, you will see a more singular, powerful, rooted-in-performance brand voice that harmonizes with elevated product marketing, clearly and definitively telegraphing how Under Armour makes you better.

Now, earlier this year, on our first quarter call, I mentioned that if we were to see additional top line or gross margin expansion above our plan, we may choose to further invest in marketing and product initiatives to support building the brand against our long-term goals.

As we close out 2019, while there are some changes to the top line that Patrik and Dave will take you through, our gross margin is stronger than what we planned for just 90 days ago.

Along with ongoing cost efficiencies, we're taking this opportunity to proactively invest back into the brand through increased marketing spend, giving us a head start on 2020 and a deliberate shift from defense to offense for this brand.

This optionality should be seen as a sign that our efforts are beginning to pay off and a demonstration that we are committed to our long-term strategy.

And in that respect, I will close by underscoring that we are on track with the plan and metrics that we set forth at our investor day in 2018. By staying disciplined and executing against this plan, we put ourselves in the best position to reignite growth to unlock the full potential of the Under Armour brand. We will.

With that, I'll turn it over to Patrik.

Patrik Frisk

Thanks, Kevin. Good morning, everybody. I might have a little bit of a coarse voice this morning, but we had ourselves one heck of a football game here in Baltimore last night. So, I'm going to power through this thing.

So, when I joined Under Armour in the summer of 2017, the one thing that struck me was a companywide relentless pursuit of innovation and attention to detail and the outright grit that goes into making all athletes better. This obsession is omnipresent and infused into our culture, one that prides itself on serving athletes and an unmistakable desire to win.

This same vigor has been applied in everything we've done over the past few years to continuously improve our operations and executional abilities.

And I'm pleased with the progress we're making. And although we may see some puts and takes in the short term, there is no departure from our confidence in delivering on our long-term plan.

Our foundation continues to get stronger; our structure, process, systems, and leadership are in place; and our discipline and patience are steadfast as we work to wrap up 2019.

With respect to the announcement that I'll be assuming the role of CEO January 1, I am humbled and honored by the trust that both Kevin and our Board of Directors has placed in me.

Both professionally and personally, it's a perfect opportunity for me to blend more than 30 years' industry experience with my lifelong love of sport and human performance. We are truly just getting started.

So, now, let's turn to our third quarter results. I'll start by addressing three areas of our business that I'd like to focus on given our results – direct to consumer, footwear, and Asia-Pacific.

Starting with direct-to-consumer which came in slightly less than expected, third quarter revenue was down 1%, driven primarily by results in North America. The reasons for reduced volume are very similar to our second quarter, with our outlet stores experiencing lower traffic, yet slightly higher conversion AUR.

In our e-commerce business, we continued to see higher traffic, but lower conversion with relatively flat AUR.

Independent from general traffic challenges in North American outlets, our full price stores are showing encouraging signs from some of the reset work that we're doing, including new brand house concepts that have recently launched.

For the full year, we now expect D2C to be up slightly.

Turning to footwear, revenue in the third quarter was down 12%, slightly lower than what we had planned. As expected, this result was driven by softer demand, lower sales through the off-price channel, and improving service levels that are enabling us to meet customer demand in a timely manner.

Related to service levels, footwear shipments are distributed differently in 2019, with increased amounts in this year's second quarter compared to 2018.

As we think about our opportunity in footwear, our expectations have not changed. We're playing the long game and the work we've done to recalibrate the business, reduce inefficient volume and improving segmentation across price points are enabling us to drive greater focus on prioritization into the categories where we believe we can win.

With a clear innovation pipeline delivered through a methodical launch cadence, along with an aligned go-to-market process that includes amplified marketing initiatives, we are confident in our ability to create a sustainable runway of growth moving forward.

The third area I wanted to address is Asia-Pacific, a region we remain incredibly excited and measured in our approach to growing the brand. In the quarter, revenue was up 4% and included continued growth in our DTC channel from both new door openings and e-commerce.

And as we laid out in our last call, improved service levels across our international business, particularly with distributors, have seen shipments distributed differently in 2019, with increased amounts in this year's second and fourth quarters.

Additionally, compared to 2018, new store openings are more heavily weighted toward the fourth quarter. Certainly, a little bit lumpy, but in line with expectations.

Now, moving on to the other regions. Revenue in North America was down 4% in the quarter, which was in line with the outlook we provided on our last call. As a reminder, the primary negative impact in the quarter was driven by lower sales to the off-price channel relative to last year.

On a positive note, within our wholesale business, excluding sales to the off-price channel, year-to-date, we've seen a slight increase in full price revenue, a good sign that the underlying business is trending healthier.

In EMEA, revenue was up 9%, driven by continued growth in our wholesale and direct consumer businesses. Within wholesale, our results were positively impacted by improved service levels and earlier-than-planned shipments related to Brexit.

And finally, revenue in Latin America was down 4%, a result directly related to the change in our Brazilian business model. Excluding Brazil, Latin America revenue was up slightly in the third quarter, driven by balanced growth in both wholesale and direct to consumer.

As a reminder, the business model change in Brazil occurred in the fourth quarter of 2018. So, moving forward, this change won't impact the year-over-year comparisons.

So, before I wrap it up, I'd be remiss to not talk about the incredible progress we continue to make in inventory management. Coming in well ahead of our expectations, we posted a 23% decline in inventory, improving service levels and much tighter buys to customer demand, coupled with product selling through at a rate higher than we had anticipated means we've had lower returns and, therefore, don't have as much excess product to sell in the off-price channel.

While Dave will provide more color in our full-year outlook, it is important to note that this shortfall in sales to the off-price channel is a contributing factor to our updated revenue outlook for the full year.

So, in closing, as we finish out 2019, I have never been more confident in the long-term strength of this brand, this team and our path forward. Dave?

David Bergman

Thank you, Patrik. Let's dive right in. Third quarter revenue was down 1% to $1.4 billion, while flat on a currency-neutral basis.

Clicking down by channel, our wholesale business was down 2% to $892 million, driven by planned lower sales to the off-price channel, timing shifts relative to distributor order flow and third-quarter impacts related to continued service level improvements which shifted some sales into the second and fourth quarters.

Direct to consumer revenue was down 1% to $463 million, which was slightly lower than expected due to continued traffic and conversion challenges, primarily in our North American outlet and e-commerce businesses.

Licensing was down 6% to $30 million, a result driven by softer demand from our partners in North America.

By product category, apparel revenue was up 1% to $986 million. Footwear revenue was down 12% to $251 million, driven by the factors Patrik previously discussed. Accessories revenue was up 2% to $118 million. And our connected fitness business was up 22% to $39 million, primarily driven by higher subscription revenues and a one-time development fee from a partner.

To give a little more color here, along with our connected products continuing to drive increased brand strength, newly launched training plans for gym workouts and nutrition plans for premium members add to our growing confidence that we are building more sustainable momentum in this business.

From a regional perspective, North America was down 4% and our international business was up 5%, both in line with the outlook we provided on our last call.

Turning to gross margin. We saw a 220 basis point improvement to 48.3% in the quarter. Clicking into the positive factors, we realized approximately 90 basis points of channel mix benefits, primarily due to a lower mix of sale to the off-price channel; 80 basis points from continued supply chain initiatives related to favorable product costs and lower airfreight; and 40 basis points related to prior-year impact from restructuring efforts.

SG&A expense increased 4% to $551 million, which was better than expected due to our continued cost management efforts as well as unrealized marketing spend that will be utilized in the fourth quarter, coupled with lower-than-planned depreciation from timing of store openings and capital expenditures.

Third-quarter operating income was $139 million. Interest and other expense net was $6 million. And our effective tax rate for the third quarter was approximately 22%.

Taking this to the bottom line, net income was $102 million or $0.23 in diluted earnings per share.

On our balance sheet, we continue to make great progress. Cash and cash equivalents were up 147% to $417 million. Total debt was down 26% to $592 million. Capital expenditures were up 10% to $21 million. And as Patrik detailed, inventory was down 23% to $907 million, which was better than expected.

Turning to our 2019 outlook. We now expect revenue to be up approximately 2% compared to our previous expectation of 3% to 4%, driven by lower-than-planned excess inventory to service the off-price channel, ongoing traffic and conversion challenges in direct to consumer, and continued negative impacts from changes in foreign currency.

Relative to gross margin, we now expect improvement of approximately 90 basis points to 110 basis points compared to our prior expectation of 70 basis points to 90 basis points in improvement compared to 2018 adjusted gross margin due to ongoing supply chain initiatives, including more favorable product cost and lower airfreight, coupled with additional channel mix benefits from lower off-price sales.

Lastly, recall that, in 2018, we had approximately 40 basis points of negative gross margin impact due to our restructuring efforts. Therefore, on a GAAP basis, gross margin in 2019 should be up approximately 130 basis points to 150 basis points.

As we noted earlier, we have made the strategic decision to reinvest the portion of this upward revision in gross margin, along with underlying cost efficiencies, together approaching $20 million to fund incremental digital and marketing investments in the fourth quarter.

In this respect, we now anticipate holding SG&A flat as a percentage of revenue on a year-over-year basis.

Even with this additional investment, we are updating our full-year outlook for operating income to reach the high end of our previously given range of $230 million to $235 million.

Moving forward, our efforts to create greater efficiency, agility and leveraging our cost structure remains a key priority and focus for our company. In this respect, we will continue to balance key long-term strategic investments with a disciplined commitment to driving operating margin rate improvement.

Interest and other expense net is planned at approximately $30 million and our effective tax rate is unchanged at approximately 22%.

We expect our diluted EPS to be at the high-end of our previously given range of $0.33 to $0.34 which includes about $0.01 of negative impact related to the performance of our licensee in Japan.

To provide a little more color there, our Japanese licensee is currently working to address a number of strategic and operational challenges and building out and beginning to execute against the plan.

And finally, given the continuing improvements in efficiencies we are experiencing within our supply chain, we now expect end-of-year inventory to be down at a low double-digit rate.

Now, I would like to take a moment to provide color on a few of the main drivers of our fourth quarter revenue growth expectations. First, cleaner inventory positions and improving service levels around the world are enabling us to more efficiently meet our wholesale demand closer to need.

As anticipated all year, more timely delivery should serve as an incremental benefit to Q4 as we begin to ship product for spring floorsets.

Second is DTC. With assumptions based on measured improvements in traffic, conversion and new door openings, also supported by an easier prior-year comparison in North America, we expect to see some Q4 improvement.

And finally, we expect our licensing business to be up in Q4 due to contractual royalty minimums, in addition to a settlement related to one of our North American partners.

Before we turn over the call to the operator for Q&A, I'd like to break from our typical company policy of not discussing any regulatory or litigation matters and briefly address an article published yesterday regarding an investigation by the SEC and the US Department of Justice.

We have been fully cooperating with these inquiries for nearly two-and-a-half years. To this effect, we began responding back in July of 2017 to their request for documents and information. We firmly believe that our accounting practices and disclosures were appropriate.

Now, back to the quarter at hand. I'd underscore that we are staying disciplined, focused and methodical in our tactics, which includes delivering innovative premium product, amplifying our brand to connect even more deeply with our consumers and strategically managing our business with an eye toward constant operational excellence.

We have made great strides in our transformation. Strides that are beginning to harness the energy, power and strength necessary to deliver prudently as we work to grow our brand over the long-term.

With that, we'll open up the call for your questions. Operator?

Question-and-Answer Session

Operator

Thank you. [Operator Instructions]. Our first question comes from Alex Walvis with Goldman Sachs. Your line is now open.

Alexandra Walvis

Good morning, guys. Thanks so much for taking the question this morning. I wanted to start by digging into the change in revenue guidance a little bit. So, you give three key reasons for the slightly lower revenue guide. Could you possibly help us to size each of those in terms of its magnitude on the change?

And then, perhaps more specifically, on the North America backdrop as part of the driver of the lower guide, can you help us perhaps explain what's changed since we spoke last quarter in terms of outlet traffic or in terms of that online conversion which is weighing on sales growth a little bit?

David Bergman

Sure Alex. This is Dave. First of all, relative to the updated guidance, we did talk about the three main drivers there. Availability of excess inventory for the off-price channel is lower than we anticipated, also the weaker expectations on DTC and also the foreign exchange rates.

Quite frankly, all three of those are fairly similar in impact for us as we finish out the year. There is not one that's really driving larger than the other relative to the updated guidance in Q4.

When we think about North America, in Q3, with the down 4%, the largest driver was the decline in the lower sales to the off-price channel. DTC was a little weaker than expected, but then on the flipside, we were able to overdeliver a little bit on the wholesale side, some of that with the operational improvements we're driving.

And when you think about Q4, obviously, we're implying a higher growth rate in Q4. Some of that is the service level improvements that we mentioned and being able to ship more of that spring product earlier in Q4 than previous Q4 in 2018, but also some of the DTC improvements to a degree. The new commercial door concepts, which we're excited about, the amplified marketing that we've talked about, improved e-com fulfillment levels, and then also just having an easier comp for Q4 for North America as well. So, a lot of different factors going into that.

Patrik, do you want to add some more color?

Patrik Frisk

Well, I think I said a little bit in my script, the plan is still the plan, right? We're in third quarter out of a 20-quarter plan. And what we feel really good about is the leadership that's now in place in North America. I think Stephanie has done a phenomenal job onboarding and is really hitting the ground running. The continued stabilization and strengthening of the foundation, which gives us an opportunity to reinvest into the brand earlier than we had originally planned, which is very exciting for us, and we also feel very strongly about the actual content that we're going to deliver against that.

And then there's some good news like Dave said, right? We have full price trending better which is great for us. We're winning with the winners, we believe, in the marketplace. We're growing where we need to grow. And we feel good about how we have thought about Q4 in terms of being balanced there, so I hope that gives a little bit more color adding to what Dave said.

Alexandra Walvis

That's helpful. Thanks so much for the color. One follow-up, if I may, on the reduced sales to off-price now planned for the year. Can you help us to understand what's driving that? Is it a better full price sell-through perhaps in the wholesale channel or is it kind of better supply chain operations than you had previously expected?

Patrik Frisk

Hi, Alex. It's Patrik again. It's a combination of both. So, we're able to service the business better as we go into the season. In other words, delivering the right stuff to the right place at the right time. The product is also better. So, we believe that the type of product we're now putting into the marketplace, the fact that we have less old product on the shelves is helping drive the sales. And then, ultimately, that then gives you less returns, right? So, it's a combination of these three things that's really helping us now decrease the amount of inventory that we have for the off-price channel quicker than we first had anticipated.

Alexandra Walvis

Fantastic. Thanks very much for all the color.

Patrik Frisk

Thank you, Alex.

Operator

Thank you. Our next question comes from Jonathan Komp with Baird. Your line is now open.

Jonathan Komp

Yeah. Hi. Thank you. I want to first just follow-up on the North America business. Can you just comment on where you expect that to fall for the full-year 2019? And then, I think it's been three years of decline in top line for that business. Do you expect, going forward, that you'll be able to reverse that trend?

David Bergman

Hey, Jonathan. This is Dave. When you think about the full year, North America, we expect to be landing down slightly on the full year versus international, which should be up at a low double-digit rate. Obviously, there's a lot of great things that we're working on. We're excited about 2020, but we'll be giving more color on that in early February.

Jonathan Komp

Okay, great. And then, Dave, I wanted to just follow-up on your comment of the federal inquiries into the accounting practices, and really two questions. I think, first, wanted to just ask maybe more insights on your view internally of materiality and any comments there relative to the presence of document requests for the last several years, but just hearing about it now.

And then secondly, could you just give a little more insight internally kind of the degree of resources being applied and any sense of distraction from any of the requests involved?

David Bergman

Yeah. Jonathan, we can certainly appreciate that you'd like us to provide more details regarding that matter. However, we are prohibited from doing so. That said, the most important message, I think, to convey is that we firmly believe that our past accounting practices and disclosures were entirely appropriate, and we've been fully cooperating for the past two-and-a-half years on this. So, now, we're focused on 2020 and beyond. We feel like our foundation is strong and we're looking forward to reigniting the Under Armour brand as we continue into the next chapter. And we'll leave it at that for now.

Jonathan Komp

Okay, understood.

Patrik Frisk

Thank you, Jonathan.

David Bergman

Thank you, Jonathan.

Operator

Thank you. Our next question comes from Erinn Murphy with Piper Jaffray. Your line is now open.

Erinn Murphy

Great. Thank you. Good morning. I guess, first, bigger picture question. If you guys round out year three of your initial turnaround plan, you guys have done a really nice job of keeping inventory lean, hitting your bottom line despite just broader macro noise. But kind of to the point of the first question, sales has been a little bit light. So, what accelerates sales from here? And are there any tweaks that you need to make to the five-year plan that you provided last year?

Patrik Frisk

Hi, Erinn. This is Patrik. Thanks for the question. I love that question because I can answer it very confidently that the plan remains the plan. And if you remember, at the investor day, we laid out that 20-quarter plan and the Protect This House timeframe that we're currently in, that we're turning the corner to in 2020. Nothing has changed there. There are, short-term, a few puts and takes here and there. But, ultimately, we're still confident in that plan.

And when you do these kind of turnarounds, it takes time because you have to actually work through the calendar. Unfortunately, it's kind of a – the way it works when you enter into a 22, 24-month calendar and you start to do the work. We feel really good about how we think about the future of this brand, all the work and the foundation that we've done. And we're going to continue to work through that plan. And as we turn the corner now into the Perform With Balance chapter, which is the next chapter, we feel we have the product, we have the marketing, we have the team to be able to really drive the business more going forward. So, we're happy about it.

Kevin Plank

Erinn, let me just weigh in on that as well that I covered in my script. First of all, big picture, we know that great brands endure. So, our job is continue to remind ourselves and demonstrating wider world to see Under Armour as that it were special and the reason that we exist. We've talked about the ability for us to start playing offense. And I mentioned that in my prepared comments as well about moving and creating room that we can actually begin to invest here in the fourth quarter, and especially as we turn the corner into 2020 that we're going to be even more aggressive where you'll finally – I guess gives the ability to see the benefits of the true go-to-market with strategy, supply chain, product, marketing, sales, all hitting and amplifying at the same time.

So, we know that we're not expecting perfection at the first time. That version 2 will always be better than version 1, but you're about to see a really harmonized play come from this company and something we'll be able to deliver on a consistent basis due to the culture and the process that we've been able to implement and put into this brand.

So, we are looking to light our brand up more effectively and holistically since our transformation began and where the new criteria that we have for that is using data really as a high accelerant into how we're making those decisions and it's really smart about the way we're spending our money. So, we are continuing to work on quieting our company and amplifying our brand and we really look forward to that happening in 2020.

Erinn Murphy

Great, thank you both for that response. And then just a follow-up. Maybe, Kevin, for you. Just – and kind of how you answered that last question, but can you just share a little bit more about the pace in innovation in 2020 both on the apparel and footwear side. Just anything you can share with us today on what some of those stories that we can be expecting. Thank you so much.

Kevin Plank

I think we've got so many franchises that we have at the company, beginning with the fundamentals and the foundation of the basics – heat care and cold care. It's amazing how much smarter we get as the weather started to turn here in the last week or so, watching things begin to accelerate for us, is that's such an anchor and aspect for our business.

But I think it's really holistic. I think this is part of the process we've had in the go-to-market of truly setting up this funnel of technology and innovation that points toward specific date where we can either, A, launch or announce building that franchise with things to be done, like Curry, Rock product, HOVR, our overall training line, and then also being able to do it and talk about it through amplified moments of things like building spacesuits through the new Virgin Galactic program and taking eight technologies we have in our in-line commercial products that we're demonstrating are capable of going to space.

And so, I think innovation is the heart and soul, and I think it speaks to the focus and the commitment that we have to the athlete of us really narrowing the range and the target that we have for our consumer of identifying it as this focused performer. And so, building product for them that will help them train, compete and recover in is going to really be our difference, I think.

And I think you see it showing up. You see it showing up in sports marketing. And whether it was, as Patrik mentioned, the Patriots and the Ravens going at it last night here in our backyard and watching the excellence of a Tom Brady who we continue to help drive and innovate with athletes like that in that perspective or if it's relative teenagers like Soto for the nationals, winning the World Series last week.

The innovation, I think the commitment to this brand is really consistent and one you'll continue to see come from us over and over. So, we've got platforms, we have franchises, we continue to have an innovation pipeline that we're really excited about and it only gets stronger and stronger going forward.

Erinn Murphy

Thank you.

Operator

Thank you. Our next question comes from Randy Konik with Jefferies. Your line is now open.

Randy Konik

Hey, thanks. I guess, Patrik and Kevin, I agree, great brands endure. Just want to get your perspective. There's other lesser enduring brands that kind of can create some noise in the marketplace. One of those, you see in the youth market. Lower-priced has been gaining some traction for some time. How do you think about those lesser enduring brands that are – that can come and go? How are they impacting the market from a pricing perspective, wholesale order perspective? Where are we in that kind of cycle from your perspective with these other one or two lesser-known brands that are kind of impacting the market, particularly on the apparel side right now? Just want to get your perspective there first. Thanks.

Patrik Frisk

Hi, Randy. This is Patrik. I think I'll kick it off and I'll see if my partner here wants to chime in. You know what's interesting with our transformation has been this evolution in terms of how we think about creating product and services for a specific consumer mindset that's really allowed us as an organization to become incredibly consumer-centric. And this has been an evolution over the last two years. It's not that the company wasn't consumer centric before. It's just that we're now able to use data, like Kevin said, much more purposefully to actually understand what matters to this consumer.

So, when we think about other brands that are coming up or entering into the marketplace in a category or in a space, there's an opportunity today, of course, to do that more easily than ever before. But there's also some really big hurdles once you get to get some scaling in terms of sourcing and an ability to innovate long-term where we believe that we now have set up an ability to understand what problems we're trying to solve for and how to actually make our focused performer better. That is now taking on a whole new scientific level that I believe is going to be a game changer for the company going forward that I don't believe that these smaller companies can sustain to the same degree that we can because size actually does matter in this space, especially when the stakes are as high as they for brands like us where we play on the national and international fields every day.

So, we feel very, very good about how we've transformed ourselves from just making great products to actually making great product for a specific consumer, driven by data and an incredible attention to detail and process.

I don't know, Kevin, do you want to chime in because you've got the history here?

Kevin Plank

Yeah. I'll take it a step back maybe and sort of reflect on what it means of where we find success. Today marks the 56^{th} earnings call that I've participated on. And when I think and reflect on that, it's how much of the external noise that continues to come at a public company, yet the ability of how we manage that. And more importantly, how we put the blinders on to focus on ourselves and not be concerned about the others of the outside and either who's above or who could be below. But really what this relentless sort of energy and probably mild paranoia of always thinking about what's next and how we can obsess on the next great product and for us to be the first to deliver it for you.

And I don't think that's changed at all. I think what we have now is where we were built by many forces of personality and forces of energy and forces of will to underlie and underpin that with really the world's most dedicated team and processes and systems that can keep up with it and do it on a repeatable basis, is a position we're in now. And so, whoever the competition is, be it above or be it below, we're prepared for it. But most importantly, we understand that our criticality toward success, the definition of what will actually get us there, is our ability to focus on ourselves to block out the noise and to keep marching forward and always going through. You'll see that and feel that from this brand today and you'll continue to see that through 2020 going forward. And I can't wait for the future.

Randy Konik

Great. And then, can I ask you just for some clarity on footwear side of things. It sounds like the reduction of sales into the off-price channel impacted the growth rate of that category. So, how do you guys think about normalized growth rate of the footwear category going forward and discuss some of the wins and losses in the category?

Obviously, HOVR seems like to be a nice win for you guys from a platform perspective. Just curious on how we can think about the long-term growth algorithm of the footwear business going forward. Thanks, guys.

Patrik Frisk

I'll start off. Dave, maybe you want to chime in. But, ultimately, for us, footwear is playing the long game. We talked a little bit about innovation here earlier today and how well we have been able to place the HOVR platform in the marketplace, in the run performance marketplace specifically, and how successful that's been.

It's taught us a lot. And I think the teams now have a much better understanding of what it takes to do an orchestrated disciplined play in the footwear space, which is very different than what it is in the apparel space.

But we've also been reducing inefficient volumes throughout this year. And especially in Q3, we're annualizing some off-price coming out of 2018. There's some shift in timing between Q2 and Q4 this year. Ultimately, for our footwear this year, we're expecting to grow. We're flat year-to-date and we're expecting to grow in 2019 and we expect that to accelerate as go into the out-years. And we're very encouraged by what's happening in our performance run and also in our women's training footwear.

So, you're seeing a bit of a shift in terms of the footwear portfolio, if you like, that we have this year, but we have, like Kevin alluded to earlier here, a very, very strong belief in our footwear innovation pipeline going forward. I don't know, Dave, do you want to add some color?

David Bergman

Yeah. I guess I would just – quick reminder, the Q3 growth rate down 12%. We had expected Q3 was going to be a lower growth rate for the reasons that we already mentioned. And as we think back to investor day and expecting that footwear growth from a CAGR perspective long-term is going to be a fair amount higher than apparel, possibly double apparel, we still believe in that and we've got the momentum for that. So, we're excited about talking about that further in early February.

Randy Konik

Thank you, guys.

David Bergman

Thank you.

Operator

Thank you. Our next question comes from Edward Yruma with KeyBanc Capital Markets. Your line is now open.

Edward Yruma

Hey. Good morning. Thanks for taking the question. I guess just first, kind of a housekeeping question. I know you're not guiding to 2020, but just maybe contextualize how much the improved service level is showing into 4Q, so we could start to think about, I guess, our 1Q estimate correctly.

And then second, bigger picture. Kevin, I know we've talked a little bit about footwear. How pleased have you been with the follow through on HOVR. And then, I guess, some of your competitors have multiple kind of cushioning lines. I guess, when can we expect something similar from Under Armour? Thank you.

David Bergman

Yeah. This is Dave. We have talked a lot this year about the improving service levels, which we're really excited about. And when you think about shipments towards the end of June and shipments towards the end of December, that's when those impacts of the improving service levels can really benefit us. And that's we're anticipating for Q4.

So, it is something that we've been forecasting for quite a while at this point. We're expecting that to continue when we think about Q4 of 2020. So, from a full-year perspective next year, that's all considered.

Although we're excited about 2020 and where we're going, where we're driving, we're going to hold further comment on that until the first week of December. But, Patrik, if you want to add more to or Kevin?

Kevin Plank

Edward, let me address that because I think you bring up a good, valid point. Starting as an apparel company, it had us adjusting to what does it mean to make footwear. And from the learning curve, going back to 2002, making my first trips to – speaking to the right footwear factories, of understanding how we can be there and be effective, of knowing what that would mean and the time that it would take. So, the investment we've made there is extraordinary and we're now set to run. And all the way down to the things that make it important from an innovation standpoint of having the right products, making sure that we're segmenting correctly, the distribution, truly a holistic approach to how we're thinking about it.

So, today, we stick with roughly four, we call, midsole technologies for our footwear. Micro G, Charged, HOVR and something we've just launched actually in a truly segmented manner, which is called Liquify. So, we are continuing to invest on this and you'll see more midsole technologies come to bear in 2020 as well going forward. And just watching the evolution, the sophistication really begin to build in our footwear capability is something that's frankly taken us 15 years to get to this point, but we're ready to run and we understand what it can mean as we continue to unlock footwear, having the right product, the right time, the right price, we believe that we are truly going to be a player there and take this billion plus dollar business that does something really important.

Patrik Frisk

Yeah, it's a great question. And it's a really important one in footwear. And to Kevin's point, we have four different technologies today. And it's really important to us in terms of how that has enabled us to think about segmentation as well this year, to some extent, but even more so going forward.

We believe there is an opportunity for us to add some additional cushioning technology at the very high end of the spectrum. So, we're going to be focused on doing that in the very near future, but we believe that the unlock for footwear for any company is to be able to drive franchises on these platforms. We've demonstrated that we now are starting to understand how to do that and that is definitely, to Kevin's point, one of the unlocks for the company going forward.

Edward Yruma

Great. Thanks so much, guys.

Kevin Plank

Thank you, Ed.

Operator

Thank you. Our next question comes from Bob Drbul with Guggenheim. Your line is now open.

Robert Drbul

Hey, guys. Good morning. Just two questions for me. I think the first one is, when you look at the North American market and your performance there, do you have a sight line on when you think you can return to positive growth in North America? And then, the second question that I have is, can you just update us on the margin differential in footwear and apparel and if you've been able to really close the gap between the two? Thanks.

Patrik Frisk

Thanks, Bob. I'll start this off and I'll hand it off to Dave and he'll give you a little color on the margins. As we think about North America, we haven't changed our thoughts in any way compared to what we told you guys at the investor day in December last year.

There's a time horizon to how we think about those things. And a lot of that starts with leadership. We have what we believe strong leadership in place. We have a strong go-to-market . We have started to really see the effects of cleansing ourselves in our wholesale market? We have started to really see the effects of cleansing ourselves in our wholesale

channel. We've seen the early success of opening three new brand houses full price in North America in the last quarter. That's the first time we do that in a very, very long time. All three of them are performing at or above plan, which gives us great encouragement for the additional ones we're going to open up next year. And it also shows us that when we show up in the right way as a brand to the end consumer in full price, with the entire breath of our innovation and our brand for them, they respond, which is very encouraging to us.

So, I think a combination of the work that we're doing in wholesale, the addition of a better work we're doing in our full price stores in North America, in combination with moving on to a new e-com platform and new e-com site next year that's going to greatly enhance our ability to service the customer and layering on top of that the additional marketing that we plan to do. So, we're very excited about the fact that we're going to actually start doing that earlier at the back half of this year, which is a few months earlier than we would have hoped. And a lot of that comes on the back of the stable foundation, the hard work to make sure that we're really doing the work that needs to happen in terms of driving the business the right way.

And with that, I'll hand over to Dave and he'll give you a little color on the margins.

David Bergman

Yeah. Bob, relative to gross margin, we have been working hard driving footwear forward. Some of that is volume. Some of that is the costing improvements we've been driving through with the supply chain efficiencies and the new go-to-market process.

So, over the last few years, we continue to drive forward and increase our footwear gross margin. So, we are closing that gap versus apparel. But it is still a pretty substantial gap at this point. But we are definitely chipping away at it every single year. We're gaining anywhere from 100 basis points to 200 basis points each year on the gross margin increase for footwear. So, we're going to keep driving their forwarding and continue to close that gap.

Thank you Bob.

Operator

Thank you. Our next question comes from Jim Duffy with Stifel. Your line is now open.

Jim Duffy

Good morning. Thanks for taking my questions. First one for me, I wanted to ask about gross margin. You're tracking ahead of pace there. To what extent, guys, do you view that as a pull forward of benefits versus reflective of a new foundation upon which you can continue to see improvement? And what are some of those key levers for improvement as we look around the corner to next year and beyond?

David Bergman

Yeah, Jim. This is Dave. As you think about what we delivered in Q3, obviously, we mentioned the bigger ones, with the lower off-price sales in the quarter and also the continuing supply chain initiatives of product cost and airfreight.

There are a couple of smaller puts and takes too. We saw some smaller benefits from higher connected fitness mix. And so, as you think about what's driving in the Q4, continued channel mix benefits with licensing and a higher DTC mix will help us out in Q4.

The supply chain initiatives are probably the biggest one that carry through the whole year. including Q4, and we expect to carry into 2020 as well with the product costs and lower air freight. So, we're continuing to drive on all those.

And then, as we've mentioned on many of our previous calls, we continue to work towards stepping down our mix of off-price channel, and that's something that we'll continue to do as we step into 2020. So, a lot of the tailwinds that we're seeing this year with product costing, with air freight, with stepping off the off-price channel, with higher DTC mix, all of those things should continue to drive forward as we going into 2020 and beyond.

Jim Duffy

Okay, great. And then, you spoke to a planned step up in brand marketing, turn from defense to offense. Can you guys maybe foreshadow some of the marketing initiatives we should be looking for in fourth quarter and into 2020? Is it going to be more brand specific or product specific? Are you planning to spend more digital or more through traditional marketing channels? Any color there would be helpful. Thanks.

Patrik Frisk

Yeah. thanks, Jim. This is Patrik. What's really exciting about what we're going to do in Q4 is we're able to spend against more upper funnel brand marketing, which is helpful for us as we'll take learnings from that and enable a more precise spend, if you like, in 2020. But in 2020, it's all going to be about a 360-degree approach to marketing.

So, over the last two-and-a-half years, we've been building capabilities to be competing with other people in our space in terms of how to think about everything from digital to social media, to out of home, whatever you want, and understanding that impact and effect it will have on the consumer that we're focused on.

We weren't able to do that necessarily three or four years ago because we didn't have the capabilities. We have diligently been putting those capabilities in place and we're now starting to understand much better how to unleash them. And that's truly what you'll see in 2020, is a coordinative play, like Kevin said, where we'll go and market ourselves across every channel that we need to market ourselves across to make sure that we're increasing consideration with the consumer. So, it'll be a holistic approach to both upper funnel marketing and also sports moments marketing where you'll see Under Armour show up, where our athletes show up. And so, we're very excited about that.

So, we're really starting the journey in terms of how to think about that little earlier this year, taking the learnings to apply them to do an even better job for 2020.

Kevin Plank

And, Jim, just a little perspective on that too. I'd say, Patrik and I will probably be in alignment that we haven't done that type of top-of-funnel storytelling to our consumer in several years. And so, bringing this back, getting this amplitude – when you're looking for the from/to of what's different now versus what can we expect differently going forward is you're going to hear about this brand, you're going to hear us tell our story. That's for sure.

Patrik Frisk

Yeah. That's a great way to say it.

Randy Konik

Great. Thank you.

Kevin Plank

Thanks very much.

Operator

Thank you. Our next question comes from Paul Lejuez with Citi Research. Your line is now open.

Paul Lejuez

Hey, guys. Paul Lejuez. Can you give a little bit more color on the deceleration in the APAC segment? Just the deceleration you've seen in the first half of the year, any color that you can add by country in terms of where you've seen the biggest drop off, how you're thinking about 4Q and into next year?

And then, second, curious what drove the CapEx guidance lower for the year. Was there any of that that was a timing shift and just how you're thinking about CapEx for next year as well? Thanks.

David Berman

Sure, Paul. This is Dave. Relative to APAC, the 4% growth in Q3, we had always planned that this was going to be our lowest quarter of the year for APAC. From a channel perspective, DTC does continue to drive growth in both retail and e-commerce which has been great. But timing of shipments have been a little bit more out of Q3 relative to flow with the distributor orders. So, it's more Q2 and Q4 heavy. And then, also with the improved service levels, we're delivering more to the actual demand which puts a little bit more in Q2 and Q4 as well.

And you can kind of expect that, going forward, as you think about 2020, that the quarterly fall will be a little bit more normalized because those distributor revenues are going to be more heavily weighted in Q2 and Q4. We also have bigger e-commerce events that are normally in Q2 and Q4 as well.

When you think about kind of driving forward through Q4, international, in general, we're continuing to see those improving service levels which is great. We have a larger amount of door openings in Q4, both partner and own doors. And then, also as Patrik mentioned, we finally normalized the Latin America business with that Brazil model change that we've been discussing. So, a lot of factors going into that and seeing that growth for Q4.

When you think about CapEx, to your question there, a couple of things that we've changed a little bit. The full year, we're still driving hard as far as investments in DTC expansion, new APAC office investments, APAC and LatAm SAP investments, all well within our investor day operating principle range of 3% to 5% of revs.

When you think about some of the things that brought down – why we're guiding -- lowered the 180, some of that is around store build cost efficiencies which have been great to drive through. Some of it's timing of digital initiatives, timing of office renovations and related efficiencies. And then also, some cost savings as we completed our new distribution center here in Baltimore, but some different puts and takes there.

Paul Lejuez

Yeah. Just one follow up on APAC. Anything you'd talk about on country. If you want to take about it in terms of point of sale, where are you seeing the strongest response to product? Maybe talk China specifically, progress there. Anything you can you give on a country by country basis. Thanks.

Patrik Frisk

Yeah. hi, Paul. This is Patrik. When we think about APAC, we're very happy with the performance across APAC actually. And I think the investments we've made that Dave alluded to, which has been expanding the China office and also putting our new Hong

Kong headquarter in place, has really enabled our leadership teams there to continue the work that we're doing to really penetrate the market through category and also distribution in terms of opening stores.

As we told you guys at investor day, we're on plan to do exactly that, but also working hard to protect the premium positioning of the brand. And we have been evolving the China business model over the past couple of years, and we're now in a place where we believe we have a really strong foundation in terms of our distributors doing a great job for us there. The leadership team is in place. So, we feel really good.

And I think as an added thing too, I think as it relates to the APAC, we're also very happy with our sourcing model that we have. Only having about 10% of our product that comes into the US being sourced out of China. So, we're protected from that perspective as well.

So, I think both the front end and the backend is working incredibly well for us in APAC.

Paul Lejuez

Thanks, guys. Good luck.

Patrik Frisk

Thank you.

Operator

Thank you. Our next question comes from Jay Sole with UBS. Your line is now open.

Jay Sole

Great. Thank you so much. Kevin, just want to ask you about how your day-to-day will change now that your title has changed. If you'd give us some more color on that.

And then, secondly, I know you guys don't talk about weather's impact in 3Q, but it was like the warmest September, I think, [indiscernible]. I wondered if that has an impact on your business.

And then, Kevin, you did mention that you've seen the business accelerate in the last couple of weeks. I assume that's weather related. Can you just talk about what cold weather through November might mean to the business relative to the guidance that you gave? And that's it for me. Thank you.

Kevin Plank

Yeah. Thank you, Jay. So, let me just start by adding some clarity around the decision why, how I got here, 47 year old, what does that mean. My goal is to build – our goal is to build an eternal brand. And we're not going to stop until that happens which, obviously, that's a long – that's a self-fulfilling prophecy that's going to keep going forever. You've got to get the flywheel going. And I believe that we started that. But it's also thinking about something that we can do with the brand. As I say, great brands do endure. But setting this up truly for the long term.

Patrik and my partnership has really grown over the last several years. Having the ability to bring in – and I'm really proud of being able to find someone like Patrik who had the perfect balance of industry experience and expertise with, frankly, just professional maturity, being able to come in and handle a situation where we had to lead into heavy transformation for ourselves as a business and as a brand and going through the last two or three years of really right-sizing this business, getting ourselves in line and seeing some of those benefits come through as things as clear as whether it's inventory or gross margin improvement as reducing what we're doing of taking down – as we're looking for off-price, of just getting our inventory levels clean and really getting ourselves structured. And the professionalization of the company wasn't meaning that we weren't professional before. It's just taking your company from $5 billion to $10 billion is really different step.

I want to be clear is that I love Under Armour and it is now today, tomorrow, will always remain my full-time priority and job. I also want to be clear that this is my decision for all those reasons that I've just mentioned and gone through.

And what I think what we have now is the strength that Patrik and I have combined, really creates a force that, I think, is unmatched in our industry and I think it's really unique for business as a whole. And so, the way that we balance that and that we work together tirelessly with each other on communication and making sure that we're aligned, but also making sure that Patrik has the freedom and the ability to lead and do the part that he can, running the day-to-day aspects of the business and really running and managing the business. It will be a partnership. It will continue to move forward.

But as I said, there's three places where I think I'm going to have the best impact and it's not going to be from sort of the, I don't know, how do you say, HR and legal and some of those things, with the ability for me to really focus on the elevating product, amplifying our story, really empowering our team and really simplifying my job description to that of just obsessing on product.

I've got to spend more than a dozen hours last week in our product line review, and it was just terrific. I brought home one of the shoes, a new product technology we should have out. And I stared at this thing all weekend. It's just the ability for us to think like that in that capacity, I think, is one of the aspects we'd be unlocking.

So, we do pretty well and we put our backs to each other and face that and we're looking forward to that fist fight.

Jay Sole

Great. And then, if you could just talk about the question on the weather in 3Q and 4Q, what you've seen in terms of the acceleration in the last couple of weeks, that would be great. Thank you.

Kevin Plank

Yeah. So, Jay, maybe I can add a little color to that. I think we've seen a gradual acceleration in the back half of this year as there is not just the weather, but actually our execution that's coming to play here too. And we believe that, as we turn the corner into 2020, we're going to be even more well positioned to benefit from the executional aspect of putting the play together, now supporting also with a little bit more purposeful and heavy up marketing effort.

Jay Sole

Got it. Okay. Thank you so much.

Got it. Okay. Thank you so much.

Kevin Plank

Thank you, Jay.

Patrik Frisk

Thank you, Jay.

Operator

Thank you. Our next question comes from Omar Saad with Evercore ISI. Your line is now open.

Omar Saad

Thank you for taking my questions. Two questions. First one, I wanted to ask about, last quarter, you had mentioned weaning the consumer of some of the online promotions have been a little bit of a challenge and a drag on the business a little bit. Can you give us an update on where we are on promotionality and getting the customer a little bit more used to the fact that Under Armour is not going to be as on sale that it has been in the last couple of years? And then, I have a follow-up for Kevin.

Patrik Frisk

Yeah, sure. Hi, Omar. This is Patrik. Yeah, that is a balance as you go through the turnaround, if you like, or the transformation. And as you're trying to wash through some of the excess, there's a time component to that, of course, and you're not immune to what's going on around you in the marketplace.

And what we're trying to do as a company is really balancing the two and we'll continue to do so and it's a gradual process. We think we have a good plan for how to do that in beyond 2019 and it will be a gradual process for us.

But, ultimately, what we've been saying all along has been that we're going to drive this brand to a more premier positioning again and we're absolutely determined to do that. So, we'll add a little bit more color perhaps in the next call on that, but I think it's something that we're looking forward to. And depending on where you are in the world and what channel you're in, we're more or less successful with that, and it depends a lot on the type of inventory that we have in the channel.

Omar Saad

Thanks. That's helpful. And then, Kevin if I could ask one last question of you. Congrats to you both, by the way. You talked a lot about product and it sounds like you're going to be a lot more focused and that sounds where a lot of your passion lies. Maybe you could talk a little bit at a higher level how the Under Armour approach to building product, product lines and platforms has evolved from the earlier days and how your role will fit in? Thanks.

Kevin Plank

Yeah. Thank you, Omar. I think just adding some holistic perspective to what's happened over the last several years here – and we use the word transformation. Really repositioning our business, restructuring, reorganizing, reshadowing the processes, so that we can be clear and make sure that there's not double work happening as we just get as efficiently and lean as possible.

You can tell that my energy, of course, it fits within the dream and the vision that we have for product, but one of the best things we did is we implemented a go-to-market process. We implemented a global operating model and creating the four regions with APAC, EMEA, Latin America and North America.

We also went to category management, which really allows us to put the consumer at the center of everything we do, both men's and women's to allow us to really align ourselves. And this process is – I've mentioned before, heard people talk about sort of that growth of getting to $5 billion. Getting to $5 billion was something that we roughly got close to it around 2016 and then we've been fighting. And since that time, since the end of 2016, we're telling you that we're going to grow our revenues nearly half a billion dollars over that period of time through all this transformation and some of the things we've had to do with the restructuring charges, the pain that we had to go through with things like risk for our teammates, of just getting this business set up and organized.

I think we say really quieting the company and amplifying the brand, that is truly the goal that we have for this next chapter. And I really feel like we're set up for it. We just need to start running the play and running the same play over and over, which is why decisions like, that to be done eventually should be done immediately.

I'm thinking about Patrik and the ability that he's brought to our team and looking and saying that he can be a better CEO at this point in time than I could be. And being able to I think always put the brand first. And I think that's where we are right now from a structure standpoint. And it is something that we can look out several years and say there's no imminent change. As Patrik likes to say, the plan is still the plan. You see our management team. You see the structure we have in place. We're calling the play and now it's a matter of us executing.

And the good thing about this, there isn't a massive change coming. It's a matter of us just putting our heads down and really going to work, and that's what we look forward to doing, I think, in this next chapter as we head and move in through the end of 2019 and really head forward into 2020.

So, Under Armour is ready to run. It's tough getting to $5 billion, I'll tell you, in this industry. It's a reason why there's only a couple, three or four companies that have done it at this point. But we're looking forward to the next chapter and we're set up and we're ready to build and be that great brand that we talk about so often.

Omar Saad

Thank you. Best of luck.

Kevin Plank

Thank you very much.

Patrik Frisk

Thanks, Omar.

Operator

Thank you. And our next question comes from John Kernan with Cowen. Your line is now open.

Jared Orr

Hi. Thanks for taking my question. This is Jared Orr on for John. You gave some cover surrounding the shifts out of Q3 into the Q2 and Q4 based on the service improvements. I was wondering if you either quantify that or talk about what products that that is benefiting and what geographies?

David Bergman

Yeah, Jared. This is Dave. We don't actually quantify that. We're just trying to give a little bit of extra color. The majority of that, we've expected as we planned out the year. A fair amount of it is international with distributor flow and that being more heavily weighted to Q2 and Q4, but then also, again, those service levels improvements, when you think about the product that we would be shipping in late June, early July and the product we ship in late December versus early January, those are the two phases where improving service levels can be most impactful in a good way. And it's the play we want to continue to run as we go into 2020.

So, those amounts are not dramatic, but they're not that we want to note and give extra color around that and we're going to continue to drive forward and, hopefully, we can continue to operationally improve each month as we move forward.

Jared Orr

Thanks. One quick follow-up. Are you guys taking any pricing, especially with the tariffs coming forward?

David Bergman

Right now, we're in a very good position. We've been very proactive starting years back and kind of mitigating the amount that we import into the US from China. So, we feel pretty good about that. Relative to all the enacted tariff policies that are out there with List 3 and

List 4A and 4B, all of that's considered in our outlook and we feel like we're in a really good spot. So, we're working with our vendors and continue to drive forward in our sourcing strategy. But we're well prepared for it.

Jared Orr

Yeah, thank you.

David Bergman

Thank you.

Operator

Thank you very much. Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.