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PVH Corp. (PVH) CEO Manny Chirico on Q2 2019 Results - Earnings Call Transcript

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FQ2: 08-28-19 Earnings Summary

Press Release *10-Q*

EPS of $2.1 beats by $0.22 | Revenue of $2.36B (1.31% Y/Y) beats by $36.24M

Earning Call Audio

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PVH Corp. (NYSE:PVH) Q2 2019 Earnings Conference Call August 29, 2019 9:00 AM ET

Company Participants

Dana Perlman - Treasurer and Senior Vice President of Development and Investor relations

Manny Chirico - Chairman and Chief Executive Officer

Mike Shaffer - Chief Financial Officer and Chief Operating Officer

Conference Call Participants

Erinn Murphy - Piper Jaffray

Bob Drbul - Guggenheim Securities

Grace Smalley - JPMorgan

Michael Binetti - Credit Suisse

Jay Sole - UBS

Dana Telsey - Telsey Advisory Group

Tiffany Kanaga - Deutsche Bank

Kimberly Greenberger - Morgan Stanley

Operator

Good day, everyone, and welcome to the PVH Q2 2019 Earnings Conference Call. Today's call is being recorded. At this time, I would like to turn the call over to Dana Perlman. Please go ahead ma'am.

Dana Perlman

Thank you, operator. Good morning everyone and welcome to the PVH Corp. Second Quarter 2019 Earnings Conference Call. This webcast and conference call is being recorded on behalf of PVH and consists of copyrighted material. It may not be recorded, rebroadcast or otherwise transmitted without PVH's written permission. Your participation in the question-and-answer session constitutes your consent to having anything you say appear on any transcript or replay of this call.

The information being made available includes forward-looking statements that reflect PVH's view as of August 28, 2019 of future events and financial performance. These statements are subject to risks and uncertainties indicated in the Company's SEC filings and the Safe Harbor statement included in the press release that is the subject of this call. These risks and uncertainties include PVH's right to change its strategies, objectives, expectations and intentions and its need to use significant cash flow to service its debt obligations. Therefore, the Company's future results of operations could differ materially from historical results or current expectations. PVH does not undertake any obligation to update publicly any forward-looking statement including, without limitation, any estimate regarding revenue or earnings.

Generally, the financial information and guidance is provided is on a non-GAAP basis as defined under SEC rules. Reconciliations to GAAP amounts are included in PVH's second quarter 2019 earnings release, which can be found on www.pvh.com and in the Company's current report on Form 8-K furnished to the SEC in connection with the release.

At this time, I am pleased to turn the conference over to Mr. Manny Chirico, Chairman and CEO of PVH Corp.

Manny Chirico

Thank you, Dana. Good morning everyone. Joining me on the call is Mike Shaffer, our Chief Financial Officer; and Chief Operating Officer, Dana Perlman, our Treasurer and Senior Vice President of Development and Investor relations.

I am pleased to report that PVH posted strong second quarter results despite a challenging and volatile global backdrop. We reported earnings per share of $2.10, which exceeded the high end of our previous guidance by $0.20. The outperformance was principally driven by our European businesses.

While we are pleased that our first half results exceeded our expectations, we are taking a conservative approach to how we are planning our second half of the year and our low-end of fiscal year earnings per share guidance to $9.30 to $9.40 per share.

Our revised guidance reflects a significantly more conservative outlook based on several headwinds that we believe are working against us including the volatility in the macro environment, the weakening global retail landscape and the increased escalation of U.S. China trade tensions including a $0.20 cumulative impact from the proposed tariff.

Given the uncertainties surrounding the global retail apparel sector, we felt it was prudent to provide earnings guidance that we are confident we will be able to deliver. Before I go into the specific details, I’d like to provide a few key regional themes from the quarter, as well as our thoughts heading into the second half of the year.

First, beginning with our performance by region. Our European business continued to outperform and gain market share. Despite the macro situation, and the uncertainty around Brexit, we are bucking the retail trend with most markets in Europe continuing to show strong trends with Tommy Hilfiger and Calvin Klein. Both brands are resonating with the consumer.

The product is working and our teams have a deep understanding of the European market and consumer landscape. We believe that these favorable trends should continue for the balance of this year.

Moving onto the U.S., as many of our peers have indicated, the U.S. market was traffic challenged during the second quarter, which led to a highly promotional first half. International tourism continues to be soft as the deceleration versus the first quarter continued.

As a reminder, international tourist represents 35% to 40% of our outlet store sales in North America. As we look to the second half of the year, we are no longer expecting traffic trends to improve and we are projecting a more promotional environment, which will pressure margins, given the higher industry-wide inventory levels in the face of slower sales demand across channels.

At the same time, many of our wholesale partners are taking an increasingly cautious view of the full holiday season that’s upcoming. As they look to manage inventory levels, which is leading to tighter open to buy plans later in the year and into spring 2020.

Finally, in Asia, the traffic trends we experienced in the first quarter further decelerated into the second quarter. This deceleration is totally driven by the Greater China region, which is being impacted by the rising U.S. China trade tensions, the ongoing protest in Hong Kong, and a stronger U.S. dollar.

While our teams continue to be nimble and react to emerging business trends, we are now projecting the second quarter sales trends will continue for the balance of this year with more pronounced pressure in Hong Kong as the protest continues to cause traffic disruptions.

Despite the macro picture, we have great confidence in the underlying power of Calvin Klein and Tommy Hilfiger and believe we are positioning our businesses to succeed in this ever-changing consumer landscape.

As we evaluate the ongoing environment around us, we are increasingly making targeted purposeful investments. We have completed two strategic acquisitions in the second quarter. The first was our acquisition of the Tommy Hilfiger, Calvin Klein and Van Heusen businesses in Australia; and the second was our acquisition of the Tommy Hilfiger businesses in Hong Kong, Macau, Taiwan, Singapore and in Malaysia.

We believe taking direct operating control of our brands will drive long-term growth in these strategically important markets. During the quarter, we also announced that we will take on more direct control of our global hosiery business. We will form a joint venture with the best-in-class hosiery partners to design and produce goods across all of our brands, Calvin Klein, Tommy Hilfiger and our Heritage brands.

The JV will be responsible for the sales and distribution of our brands in North America and we will be responsible with sales and distribution of our brands internationally. We also continue to invest in our company-wide data and digital innovation agenda, which over the long-term will drive stronger brand loyalty, and more sustainable sales and profitability.

To recap a few of these areas, first, we continue to invest in digital, from our e-commerce sites to mobile platforms and incorporating digital elements in our stores. Today, digital sales continue to track at slightly over 10% of our total revenues and we continue to see robust growth online with sales growth exceeding 20% in our owned, operated businesses during the second quarter.

Additionally, the consumer data journey is a major focus area for us. As we learn more about our consumers and use this insight to power our marketing and product decisions, we believe that we can drive unique consumer shopping experiences with the goal of improving our sales and margins and providing a more seamless consumer experience.

We are also focusing on efficiencies across the business, from our supply chain to our warehousing and distribution, and to optimizing our global retail footprints and operating model.

I am now going to move onto our brand results and I will begin with Tommy Hilfiger. Our Tommy Hilfiger business posted very favorable results despite the challenging global consumer environment. The brand continues to see outstanding traction globally and we are pleased to see considerations, advocacy, and relevance metrics among 18 to 35 year old consumers continuing to grow in 2019.

We continue to focus on the next generation of consumers, while deepening connections with our core consumers. We embraced our global and local ambassadors with exciting customer activations to drive brand heat.

For example, we celebrated our partnership with Shawn Yue with our opening event of the first ever Tommy Hilfiger Store of the Future in Asia located in Beijing, China, which generated significant social visibility on WeChat, and Weibo upon launch.

Additionally, our collaborative collection with Louis Hamilton before 2019 has proven to be the strongest season yet with sell-in values doubling versus spring 2019. Category expansion was another focus area and we continued to grow and expand our local – global categories of Tommy jeans, footwear and accessories.

Looking ahead, we are excited that our Tommy Now Fashion Show is returning to New York City before 2019. The show will feature the second Tommy by Zendaya collection. Looking to full holiday and into next year, stay tuned for exciting events and activations that will leverage our local influences in key markets to drive more unique engagements, as well as differentiated Tommy experiences for our consumers.

Moving to the business, Tommy's business increased 10% on a constant currency basis with earnings up 12% driven primarily by outperformance in Europe. Internationally, revenues rose 22% on a constant currency basis with retail comparable store sales rising 9%.

International revenue growth was primarily driven by outperformance experienced in Europe, as well as the addition of revenue resulting from the Australia acquisition. EBIT margins to Tommy International rose 350 basis points.

We continue to be extremely pleased with Tommy Europe's business, which posted double-digit revenue growth. These results especially offer such a strong baseline of results, highlights the market share gains that we have been able to deliver.

We are seeing significant growth across all channels of distribution as we believe that our formula of the right product assortments offered at the right price value proposition, combined with engaging customer experiences are winning over our consumers.

As a reminder, our fall 2009 order books are plus 15% and our spring summer 2020 order books are up about 12%. In Asia, we saw healthy performance with favorable consumer backdrop in Japan as the Tommy Hilfiger brand continues to resonate in this region.

During the quarter, while our international business saw healthy growth, we did experienced pressure in the Greater China region, as consumers are being impacted by the trade tensions with the U.S. and the protest in Hong Kong, which has continued into the third quarter.

Moving to North America, revenues decline 5% and margins were also under pressure down 350 basis points. While our wholesale trends were solid, we experienced significant under performance at retail as comparable store sales declined 8%, especially considering the challenging compares from last year with comp store up high double-digits.

As many retailers have commented over the last few weeks, there were weak traffic trends across retail during the quarter and in the outlet malls in particular, which largely was driven by lower levels of international tourism coming to the United States. These factors led to higher promotional activity at retailers including us trying to move through inventories and drive traffic.

Let me end with our licensing business. This continues to be a very positive story for us across the majority of our businesses demonstrating that the Tommy Hilfiger brand is extremely healthy. In particular, we continue to be very pleased with the performance of our North America Women's business under G-III, which has experienced strong growth and excellent sell-throughs at retail.

Let me move to the Calvin Klein businesses. We are making key connections with our core Calvin Klein consumers and we are really starting to see progress against getting the brand back to its core DNA. So the good news is that the brand is extremely healthy.

Overall, Calvin Klein's momentum continued into the second quarter as the number two most engaged brand on Instagram in the second quarter. During the quarter, Calvin launched its Nothing But Pride in MyCalvin campaign featuring the Calvin Klein Pride capsule. Engagement rates were up over a 170% compared to Pride 2018 and we saw great sell-throughs across North America, Europe and Asia.

Overall, our teams are delivering targeted consumer experiences to not only drive better engagement, but also drive sales conversion. We believe that this will result in improved brand performance as Calvin's product assortments improve going into fall and create a better 360 degree consumer experience.

We are excited to launch the fall 2019 Underwear Campaign #MYCALVINS in real life which features a social and digital first rollout including notable talents, Odell Beckham Jr., Bella Hadid, Jacob Elordi and Naomi Campbell among others.

Conversations drove more than 100 million unique consumer impressions within the first 36 hours of the campaign with an earned media value totaling over $4.5 million.

Looking ahead in October, we will be launching our Calvin Klein 50, a highly commercial capsule collection celebrating the brand's 50th anniversary. The collection will be supported by a global campaign starring some of the brand's most famous and iconic faces. More to come on this a little later in the quarter.

Lastly, improved product continues to be a key area of strategic focus as we approach 2020. Specifically, I wanted to give you an update on Calvin Klein Jeans. We continue to see a positive reaction to our core and basic denim styles within Calvin Klein Jeans and for fall, we believe that the mix of basics to fashion will be much more appropriate year-over-year.

We are also looking forward to the fourth quarter relaunch of the Calvin Klein women's jeans business in North America, which will be launched by G-III. The retailers' reaction to the women's jeans product has been very enthusiastic and G-III's initial product placement at retail is running well ahead of our initial plans.

Moving to the business, Calvin Klein's revenues declined 4% on a constant currency basis, while earnings declined 4% to $101 million. As a reminder, the transition of the Calvin Klein women's business to G-III for North America combined with the closure of the Calvin Klein Collection business pressured revenues by about 300 basis points in the quarter.

By region, Calvin Klein revenues increased 5% on a constant currency basis and international comp store sales were flat for the quarter. Beginning with Calvin Klein, Europe, the business performed well in the second quarter. We saw strong second quarter growth across all channels and across the majority of our product offerings.

The lifestyle is increasingly resonating with the consumer and we believe in the long-term growth opportunities in Europe, which is largely being driven by the expansion of women's, men's and performance apparels. As a reminder, our fall 2000 order books are up 15% and for spring 2020, we are up 12%.

Moving on to Asia, results were below our plans from a sales and EBIT perspective with notable weakness in the Greater China region, slightly offset by favorable results across the digital businesses and our other markets in Asia.

In China, we experienced weak traffic trends, particularly in brick and mortar, in part due to the Chinese consumer and partly due to the softer-than planned sales in our jeans business as we cleared through fashion styles for spring from the prior design aesthetic.

We took faster and deeper markdowns than originally expected to keep inventory levels on plan.

Additional due to our sizable presence in Hong Kong, our business was pressured by the protest, which consists – which significantly impacted our consumer spending and hurt tourist traffic in the region.

Moving to North America, revenues declined 13%, largely driven by our decision to license the women's jeans business to G-III. At wholesale, we continue to see positive results from the digital businesses. In our retail businesses, comps were down 3%, which was a sequential improvement versus the first quarter sales trends despite continued pressure in international tourist markets and with the international tourist traffic.

We believe that our efforts to enhance store productivity, as well as our merchandize efforts are showing early positive signs in fall. Additionally, our own digital sites for CK.com performed quite well during the quarter.

Finally, in our Heritage business, revenues for the quarter were flat with comparable store sales down 2%. EBIT margins were under substantial pressure, down 400 basis points as the wholesale and retail businesses experienced gross margin pressure attributable to the more promotional U.S. retail environment, especially in U.S. retail department stores.

As we look ahead, we plan to focus on our product innovation and continue to leverage our supply chain to produce further efficiencies. We are looking at many ways to optimize the Heritage business to generate enhanced returns.

Before I turn it over to Mike to discuss second quarter results, and our full year guidance, I wanted to reiterate our confidence that our revised guidance reflects a significantly more conservative approach for the second half of the year as we believe it is prudent to provide earnings guidance that we are highly confident that we will be able to deliver.

Now I will turn it over to Mike to provide more color on our second quarter results and our conservative approach to the second half outlook.

Mike Shaffer

Thanks Manny. The comments I'm about to make are based on non-GAAP results and are reconciled in our press release.

Our non-GAAP earnings per share for the quarter was $2.10, and was $0.20 better than the top-end of our previous guidance. The beat was driven by strong Tommy Hilfiger revenues in Europe along with expense reductions as we reacted to soft trends in Asia and North America.

The actual beat from the business was $0.21 with interest from share count also better than guided by $0.01 each, partially offset by tax expenses, which were higher than guided for $0.03.

Moving on to guidance. Our previous full year guidance had planned for our business trends to improve in the second half of the year. Now, with the summer are bit behind us we are taking a more conservative approach for the balance of the year. As we look at the state of the North America retail, we are seeing heavier industry-wide inventories in the channel than last year along with a decrease in traffic.

Our international consumers who shop in our tourist outlet stores not in the USA at the same levels as last year. In Asia, our businesses have also been impacted by the Hong Kong protest, along with overall weaker traffic trends across China.

Europe continues to be a bright spot for us. We continue to operate above plan in both Calvin Klein and Tommy Hilfiger in Europe. The lack of improvement in trends in North America and Asia has forced us to relook at the balance of the year and reflect lower sales plans for the second half of 2019.

We have reflected the second quarter business trends into the second half of the year with CK Asia being the only exception where we also reduced the trend to reflect the disruption caused by the Hong Kong protest.

We have also anticipated a highly promotional macro retail environment as elevated industry-wide inventory levels in all channels will result in higher markdowns and in turn lower gross margins and operating margins. We have been conservative in how we have projected the second half revenues and the corresponding inventory markdowns and operating margin impacts.

For the full year 2019, we are projecting non-GAAP earnings per share to be $9.30 to $9.40. A total FX headwind on the year is now estimated to be $0.35 of translation, an increase of $0.03 versus our previous guidance. Our guidance now also includes new tariffs including the 500 basis point increase announced last week.

The total impact on the year due to tariffs is now approximately $0.20 per share on goods manufactured in China and delivered to the USA. This is an additional $0.10 of headwind versus our previous guidance. Overall for the year, we are projecting revenues conservatively and to grow approximately 1% as reported and approximately 3% on a constant currency basis.

Included in our revenue guidance for the year is an addition of approximately $175 million related to the Australia and Greater China acquisitions, partially offset by a decrease of approximately $100 million related to the licensing of the Calvin Klein women’s jeans business and the closure of our Calvin Klein Collection business.

Tommy Hilfiger revenues are planned to increase 5% as reported and 8% on a constant currency basis. We project Calvin Klein revenues to be down 2% as reported and flat to last year on a constant currency basis. Our Heritage business is planned to be down 1% to last year.

Overall, our operating margins are planned down to 60 basis points for the year with the second half down about a 110 basis points. Tommy Hilfiger operating margins are planned down about 140 basis points versus the prior year with the second half operating margins down about 300 basis points to last year. The majority of this operating margin decline is in North America.

Calvin Klein operating margins are planned up 50 basis points for the year. Our Heritage business operating margins are planned down a 110 basis points for the year.

Lastly, we've increased our planned share repurchase to $300 million on the year versus $200 million previously and reduced our long-term debt repayments to $50 million versus the $150 million previously.

And with that, operator, we will open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] And we will take our first question from Erinn Murphy with Piper Jaffray. Please go ahead.

Erinn Murphy

Great. Thanks. Good morning. Manny, I guess, my first question for you is just regarding Europe, it's obviously been a very strong point within your business. I am curious if you could talk a little bit more about the country trends within the region during the second quarter and then when you look out to spring summer 2020, order books at 12% for both brands.

Can you just parse out what's really driving the strength in each of those businesses, if you look out in the next six to nine months? Thank you.

Manny Chirico

Okay. Focusing on the first, I guess, the order book. The strength on the Calvin Klein order book is pretty much across the board.

We are seeing growth in the jeans business, our apparel businesses as well and that business is being up about a 12% and to be honest, that doesn't really, the order book has a very small factor in there relating to the underwear business, since that's really a more at-once kind of business. So, seeing really strong trends in that business.

On the Tommy Hilfiger side of the business, the jeans business continues to drive a significant amount of growth. We are seeing continued growth in our footwear business with the trends there continue to grow and that business continues to really surprise us how strong it is and how double-digit kind of growth we continue to see. And our accessory businesses continues to be very strong.

On a country basis, and I think this is applied to both brands. Our Germany and UK businesses which I am sure is on everybody's mind continues to be good. Germany in particular, the UK, from a retail point of view, last year we were seeing very strong retail comps in the UK and I think I have lot to do with the currency. As we cycle through that, we are still comping positive but not quite as positive as last year.

We really haven't seen a slowdown in any of the key markets throughout Europe as we've gone through it. We keep watching it. We are looking at the order books by country as well and we don't see that slowing down in any meaningful way and with the exception of some bankruptcies that have occurred, we are seeing strong growth throughout all of our accounts and key customers there.

Erinn Murphy

Got it. That's encouraging to hear. And then, I guess, just on tariffs, just bigger picture. I know you talked about the $0.20 hit to your full year guidance. But could you maybe talk more about what your mitigation strategies have been?

And then, also, what is your view on the possibility of taking price to the consumer just given the tepid backdrop here in North America? Thanks.

Manny Chirico

Okay. I think two components there. I think the cost mitigation continues and I think our factory vendors and our supplier are partnering with that as we go forward. We are also in discussions with some of our retail partners about some of the margin expectations given some of the tariff opportunities. So, I think, those are two areas in the short-term meaning the balance of 2019 that we have had discussion in.

I don't think in the environment that we are at and given the short notice period and reactive time that we really can take prices up in this environment or that we should anticipate that we could be less promotional in this environment.

We will attempt to do that from a selling point of view, but our guidance assumes none of that is going to be able to be done from mitigating some of these cost increases that will come from tariffs. I just don't think this is an environment that will withstand price increases in apparel as we move forward.

Moving into 2020, we have significantly moved a lot of our production where we could out of the China market. Next year, we will be somewhere between 10% to 12% of our U.S. required production coming out of China and just three years ago, that's down from over 30%. So I think teams have done an outstanding job of moving that forward.

We are in discussion with our retail partners about trying to move retail prices on some of those goods where it's necessary, particularly some of the product categories where there just is not an alternative to China. One particular area in apparel happens to be neckwear where 95% of all neckwear in the world is coming out of China.

So we really need to be focused there. So I think, competitively, given that 10% to 12% range, we are in very good shape to deal with this issue and we will look at the opportunities of sharing the cost with our vendor base, and to be looking at some price increases with our consumer on a targeted basis as we move into spring 2020.

Erinn Murphy

Got it. Thank you so much.

Operator

Our next question will come from Bob Drbul with Guggenheim Securities. Please go ahead.

Bob Drbul

Hey, good morning. Manny, I was just wondering on, when you look at the inventory situation, I think both at PVH, but also out there in the retail environment, can you just help us mirror what you see from the gross margin opportunities that you guys have in the back half of the year with the guidance that you are giving this morning?

And then, the second question is, just, I think you said, the Calvin – the updated Calvin operating margin is up 50. Can you just give us an update in terms of the recovery of Calvin from some of the jeans issues from last year? Just sort of how you see that playing out over the next couple of years now?

Manny Chirico

Okay. I think there is two stories here, Bob. There is the guidance that we've given and I think what we are trying to factor is the guidance is a very realistic picture of what we see in the market today. And what we see in the market today is generally speaking, inventory levels are elevating coming out of the spring summer season.

And I think you see that across the board. Our inventories, when you take out the acquisitions are up about 4%. And I think we are in a reasonably healthy position from a clearance point of view on moving through spring summer, we are in an excellent position.

I think, we've been very aggressive about moving those goods and trying to get in position as we start September and the real back-to-school selling season that we are not dealing with old products in our pipeline, specifically with Tommy and Calvin and specifically in North America and Asia where we see softness.

So we've been aggressive there and I think that that is a potential opportunity as we go forward. But our guidance is to build that we are going to continue to see margin pressure. I don't want to quote the numbers that Mike gave again, because I don't have them right in front of me. But clearly, we are looking for margin pressure in the second half.

The opportunity is, particularly on the Calvin side, that the product resonates earlier than we anticipated with the consumer. And that is particularly on the jeans side that the product is literally hitting stores as we speak, getting ready for that important back-to-school selling season that that core denim product transacts better than we are anticipating in our guidance.

That's the opportunity we see in the second half of the year, particularly against our guidance. I got to be honest, I am not optimistic. I was really optimistic about the holiday selling season. You know there is six less days between Thanksgiving and Christmas. I see the trade tensions with all due respect to the illustration seem like they are not really going to calm down.

And I think that uncertainty is going to continue into the fourth quarter. And that's the backdrop that we've tried to place on our guidance. If we are wrong hopefully, and that is – it is a better backdrop, we are in a very good position to capture that potential upside. But right now, I wouldn't count on it given what we are seeing in the business.

Bob Drbul

Thank you.

Manny Chirico

Bob, I think the last question, actually about Calvin Klein and the progress we are making.

Bob Drbul

Yes.

Manny Chirico

I really feel on a number of it. First on the marketing, I think it's just clearly visible on the marketing first and foremost and that's probably what you see first primarily out there is, the marketing is back to the core DNA of the brand. We are back to that sensual, sexy, Calvin Klein marketing that connects with our core consumer, and we are tying it back to key product that really is being driven.

We've really significantly moved away from that high-end designer aesthetic and really are focusing on what we think drives our consumer. So, the marketing, I think as we go into the second half of the year is just right and we are connecting and I think you will even see that accelerate into the third and fourth quarter.

And then I think we all feel that the fall holiday product is just significantly better than what we have we were last year. Again, back to the core DNA of the brand, back to black, grey, tan, core essential items that historically have driven our business and away from some of the fashion that really caused us significantly in markdowns last year.

So, I think we are really well positioned and I think, as we look at our spring product, and see what's going on with our retail partners and their enthusiasm in the showroom, I think we are really feeling good as we get positioned for spring 2020 and our execution at retail is a big focus area for us as we go forward both in our stores and how we are presenting products with core essentials and really driving that message home to the consumer.

And with our wholesale partners to really drive that message forward, tie back to the marketing which I think is much more directly tied to the product that's going to drive our sales increases. So, I feel good about where the brand is moving and that the brand is really helping.

Bob Drbul

Thanks, Manny.

Manny Chirico

Thank you.

Operator

We will take our next question from Matthew Boss with JPMorgan. Please go ahead.

Grace Smalley

Hi, good morning. This is Grace Smalley on for Matt. Thank you for taking my questions. I guess, looking out beyond the new prime time headwind, do you see any short promo as the year changes to your fiscal $0.03 to $0.05 revenue growth and double-digit bottom-line growth target?

Manny Chirico

I think is, we are very comfortable with the long-term growth algorithm that we've put in place that mid-single-digit kind of growth, 4% to 6% that we believe will drive double-digit earnings per share growth. At the same time, given this backdrop, given the trade tensions, in the shorter term, I have to be more cautious about the macro environment and the retail environment and the backdrop that we are dealing with to determine how that will play out over the next 12 months.

But from a long-term perspective, we see nothing that's changed with what will drive that growth. And as we look at the growth areas that we see, we see nothing. We've always talked about fundamentally the biggest growth area for us from an opportunity point of view is the Calvin Klein Europe business. We continue to believe that's a billion dollar sales opportunity.

Even in this backdrop, we are seeing double-digit sales growth throughout Europe. It gives us great confidence in the Calvin Klein brand and how it resonates. That growth will continue and then, for us, the Asia market has been a huge growth opportunity that's a bit up until the last six months, we've seen high-single-digit growth consistently on a top-line basis from those markets.

We believe that our brand resonates with those consumers. We believe that we play well, that we are well price positioned in those markets and that we have the strategy and the core health of the brand that can drive growth in that regions of the world. So from that perspective, we don't see anything that really change our perspective on the long-term algorithm that we've discussed over the years.

Grace Smalley

Great. Thank you very much.

Operator

Our next question will come from Michael Binetti with Credit Suisse. Please go ahead.

Michael Binetti

Hey guys. Thanks for taking our questions here. I guess, Manny, you commented that your wholesale partners are planning more conservatively for the holiday. Would you mind adding a little bit more color there? You see planned inventory receipts down.

But I also think there has been a tendency over the last few years for the retailers at least in North America to ask the vendors to hold more inventory takes, more that inventory risk to be ready so they can chase as they need to. I mean, does that cause you to rethink how much of the risk you are assuming in that relationship in the margins that you are keeping in that relationship?

Manny Chirico

Yes. I think, but there are – given our supply chain improvement, particularly on core replenishment product, we can react, we can react to some of our high margin businesses like underwear, we – as sales trends improve and as we see what's actually selling in the channel, we have the ability that we didn't have probably two or three years ago to react to sales trends both in our stores, but also in our retailers' stores.

And again, when it comes to core replenishment items, taking some risk or taking some inventory – holding some additional inventory of fabric, associated with that kind of a product category is little to no risk for us as we go forward, because we can adjust future production as we move forward. But clearly in fashion and other areas where there is momentum in the business and where there is clearly places to place goods at profitable sales here in North America in particular.

You are willing to take some risk that today we are clearly not factoring into that equation. So, it would be great, if we saw strong sell-throughs. It would be – I think we can capture a vast majority of it. It's really what will materialize and we had some visibility into it, a month or so visibility into it. We could react to it.

But again, I think the opportunity to outperform, there will be some top-line opportunity, but the real opportunity will be on the margin line since we are planning for a significantly more promotions in that environment and things really would tend to get much more healthy, we would see an opportunity on the gross margins resulting in less marketing that we are planning right now.

Michael Binetti

Okay. And then longer term question, I guess, on – since you are speaking to the long-term algo that I am curious though what you think is a long-term margin potential for the Tommy business and in particular the international business.

How do you gauge with the healthy talk for the margins in that business before you would say we'd probably need to reinvest in a faster pace to keep chasing these growth opportunities given and keep the needle moving on the top-line, given how big that business is today?

Manny Chirico

Yes, it's a great question. I think, when you look at our segments the Tommy business last year operated somewhere around 15.5% operating margins and I think that last year, I haven't spoke about, but I thought that business could be around a 16% operating margin as we level expenses and move forward.

And but the opportunity, particularly as the Asia market grows, which is our most profitable region in the world on a margin basis that – as that would grow that opportunity could grow with it.

But I think, fundamentally, that business internationally is really running at a significantly high margin. On the other hand, the Calvin Klein business which last year, I am trying to find my papers, yes, I would need a second.

The Calvin Klein business last year was running at about a 12% operating margin. I think there is no reason overtime why Calvin operating margin shouldn't be approaching the Tommy operating margins internationally.

And most of it, I think the differential between the two isn't really a gross margin story, it's an expense leverage point of view. The Tommy business is twice as large as the Calvin business. And again, just to say, that's the only region of the world, Europe, where Tommy is larger than Calvin.

So, the opportunity we really believe is at least in the next four years or so, that Calvin should be able to approach the same size of the Tommy market as we move forward.

Michael Binetti

Thank you. That helps.

Operator

We will take our next question from Jay Sole with UBS. Please go ahead.

Jay Sole

Great. Thank you. Manny, could you maybe elaborate a little bit more on the closed rate JV, like what precipitated the change? And what the financial benefit and other strategic benefits might be from that new JV?

Manny Chirico

Sure. I think it is our hosiery business historically has been a licensed business globally around the world. And as we look at the business and the dynamics for the business, it's a core replenishment business with a lot of the same characteristics as our underwear business. And our underwear business is one of our most profitable business categories that we operate.

And as we look at that, we felt that we had a real opportunity to grow – to focus on that business. We have a world-class partner in North America that started with us about a year, a year-and-a-half ago with our Heritage brand and they've done an outstanding job and we are very impressed with their supply chain capabilities, with their design capabilities and their abilities to get through product and understand the North America market and sell it.

And we made a decision as our licenses in our big brands Calvin Klein and Tommy Hilfiger in North America and Calvin International was coming due in the next 18 months, we made the decision today similar to what we've done in, let's say China initially, with the joint venture in Brazil, with the joint - Mexico with our joint venture.

We felt this was a product category that we could really do well that had the characteristics of high operating margins. Now, hosiery stock is not the most sexy business in the world from a brand aesthetic point of view, but from a profitability, it's plenty sexy.

And we felt the best way to get into that business with a world-class partner that really – now got a handle, design, sourcing and those capabilities that we could work together with, coupled with our marketing expertise and our customer relationships around the world that we could really take that business going.

So, we built that partnership. It's a joint venture, totally here in North America from design, product and distribution. Internationally, we are taking that line and initially starting with Calvin Klein business and the plan will then be to take on the Tommy Hilfiger business when that license comes due in a couple of years and international we control with the sales and distribution of that category as well.

And we think it will be a nicely profit-enhancing business for us as we go forward with very little risk as we move through the business and relatively speaking, a low investment.

Jay Sole

Got it. And then maybe, if I could just ask one more, Mike, is there operating cash flow guidance for the year? And also looking on what the CapEx spend will likely be?

Manny Chirico

Sure. Mike?

Mike Shaffer

So, look, I guess, on the CapEx end, we are looking at about $400 million in expenditures for the year. And in terms of cash flow, we basically said about $500 million in terms of cash flow. And just a reminder, we are looking to – as we called out in the guidance $300 million on our share buyback this year and about $50 million of debt pay down.

Jay Sole

So, $500 million in free cash flow and then, with the share buyback after that and the debt pay down after that?

Mike Shaffer

Yes, sir. Correct.

Jay Sole

Correct. Okay, thanks.

Manny Chirico

Yes, also just to say, and we are funding the acquisitions that I touched on the three – the two acquisitions and the funding of the joint venture partnership that will be in the fourth quarter.

Mike Shaffer

With termination rights, correct.

Jay Sole

Okay. Thank you so much.

Mike Shaffer

Thanks.

Operator

Our next question will come from Dana Telsey with Telsey Advisory Group. Please go ahead. Dana, please check your mute function.

Dana Telsey

Yes, sorry, I was on mute. Hi, good morning. Hi Manny. As you think – and Dana and Mike. As you think about the promotional environment of the wholesale accounts, how do you see additional digital business in both for Tommy and for Calvin, certainly the reset at Calvin with the enhancements, what do you see is the opportunity there on the top-line as you go into next year? And also, any thoughts on the margins going forward. Thank you.

Manny Chirico

Sure. It's a good question. Look, I – we don't see the digital growth for both of those brands going down and when I say digital growth, it's the growth of our own directly operated online businesses around the world, coupled with our business model with some of our key partners from Amazon, to Tmall, to Zalando, which has been great business partners for us.

Those partners continue to focus on our brands and continue to look to drive the brands. What's interesting as we look at those businesses is, in the third-party businesses, Amazon, Zalando, Tmall, those business models are as profitable or slightly more profitable than some of our existing wholesale channel partners' profitability. So, it's not as if those businesses are margin negative.

They are actually margin neutral or margin enhancing. So – and when we sell ourselves obviously, that's a retail margin versus the wholesale margin.

So, that will continue to improve. I think our gross margins and our margins overall going forward and we don't see that changing over this year and most of next year as we go forward. So, and we are making those investments in order to continue to enhance that business as we go forward.

Dana Telsey

Thank you.

Operator

Our next question will come from Tiffany Kanaga with Deutsche Bank. Please go ahead.

Tiffany Kanaga

Hi, thanks for taking our questions. I understand that you are taking a very conservative approach and not baking any improving trends into your overall second half guidance. But with the number of your retail partners discussing some better momentum into August, can you highlight for us any bright spots or signs of sequentially better trends as we kick off the third quarter?

Manny Chirico

Well, look, I think, okay. So, I am not going to call anybody out. They did that themselves. But I do think that what people have been saying about the second quarter, specifically in North America and probably more specifically in our wholesale customer with our key wholesale customers is, sequentially, the second quarter improved as the quarter moved on.

And that their initial view of what was happening and all I guess was consistent to what was happening in July. So I think, and now they've talked about their sales guidance and what they are seeing. What they are seeing in their business, we are seeing in our business as well.

So it's probably correlated and we'll see how that all plays out, I think fundamentally, when you look at what their guidance is for the second half of the year, we are more conservative on those trends continuing and improving, because I think there is an element of not only that it will continue as an element that as we get into September and beyond, that the sales trends will actually continue, we hope so.

But we are not planning for that in our guidance. And obviously, if the sales trends improve, it will take pressure off of the margins that we are also anticipating in our guidance. So, I think that's how you have to think about what we are doing somewhat differently than our competitors and some of our key customers at this point. We hope they are right.

Tiffany Kanaga

Thanks so much.

Manny Chirico

With that operator, we'll make this our last question.

Operator

Thank you. Our final question will come from Kimberly Greenberger with Morgan Stanley. Please go ahead.

Kimberly Greenberger

Great. Thank you so much for taking the question. I wanted to just ask about the Tommy Hilfiger expectations in the back half of the year. I think you said, a 300 basis point decline. I am wondering if the big driver there is just a normalization of markdowns, so that's coming out of merchandize margin. Are there any other sort of significant drivers that are bringing that down?

And then, secondarily, Manny, you guys have made great progress in reducing your reliance on China as a country of origin. I think you said you are down to about 10% to 12% at this point. As you look out over the next 12 to 18 months, do you have aspirations to bring that down any further? Thanks.

Manny Chirico

Okay. Let me take the last one first, because it's just top of mind, right now. What we would hope as opposed to how many it takes China to completely down is what we would hope is that we would actually get a resolution to the tariff and a resolution to the situation. And go back to a level playing field, and go back to sourcing that will be driven by global economic realities and not artificial elements like tariffs just being placed on goods coming into the United States.

We think that would be a much healthier place to be. We have always believed that as China's economy continues to improve as they continue to advance their economy, that apparel in general would become a smaller portion of their manufacturing base and there would be a natural evolution out of China over a longer period of time.

The tariffs have accelerated that movement. And I think as we've tried – I think we have been well positioned, because we recognize what was ahead of us over the next three to four years in a normal trading environment and we opened up Africa. We moved to some other locations throughout Asia and we tried to position ourselves with key fabric suppliers throughout the world that would enhance our supply chain.

So I think we were fortunate that we were ahead of the curve on a number of those movements and has positioned us well. We would like to think that we would get to a more normal world when we could just make economic decisions about where it's most appropriate to make goods and that China could continue to be a key resource for the U.S. market, even though we would continue to probably trend down over the long-term, just not as dramatically as it's been occurring.

The first part of the question was, the Tommy Hilfiger margins, I think where we are planning for the margins to be under pressure are basically in North America. And I think the North America margins are up against really historically high margins last year, that's one challenge that we faced, that we tried to anniversary at the beginning of the year.

And we were also dealing with a sales trend as we came out of the fourth quarter last year. Just to remind everyone, our Tommy Hilfiger retail comps are up mid-single-digits. We were feeling strong growth in the wholesale channel distribution and as you would have expected, we bought into that sales trend. So inventory in our Tommy Hilfiger, particularly our retail business is higher than we would like.

It's part of the inventory and that is not aged as we have moving through, but it's still heavier than we would have wanted to have in that channel of distribution today and given the sales trends that we've built into our model, those margins are under more and more pressure.

We would expect in a more normal environment, in North America, that off of the 2019 projected margins for this year, that we should see an improvement in gross margins going forward if nothing else getting the inventories rebalanced for the full year as we enter 2020.

So I think that's an opportunity that we really need to focus on and that we are really going to hold our businesses too as we work through those businesses and that's one of the opportunities that would be ahead of us.

Kimberly Greenberger

Great. Thanks.

Manny Chirico

And operator, with that we'd like to close the call. We want to thank everyone for joining us. We also want to wish you a happy holiday weekend and we look forward to speaking to you in – I guess, early late November, right after the Thanksgiving holidays with our third quarter earnings release and guidance. So, have a great day. Take care.

Operator

Thank you. And ladies and gentlemen, this does conclude today's conference. Thank you for your participation. You may now disconnect.