S&P Global
Market Intelligence

Levi Strauss & Co. NYSE:LEVI

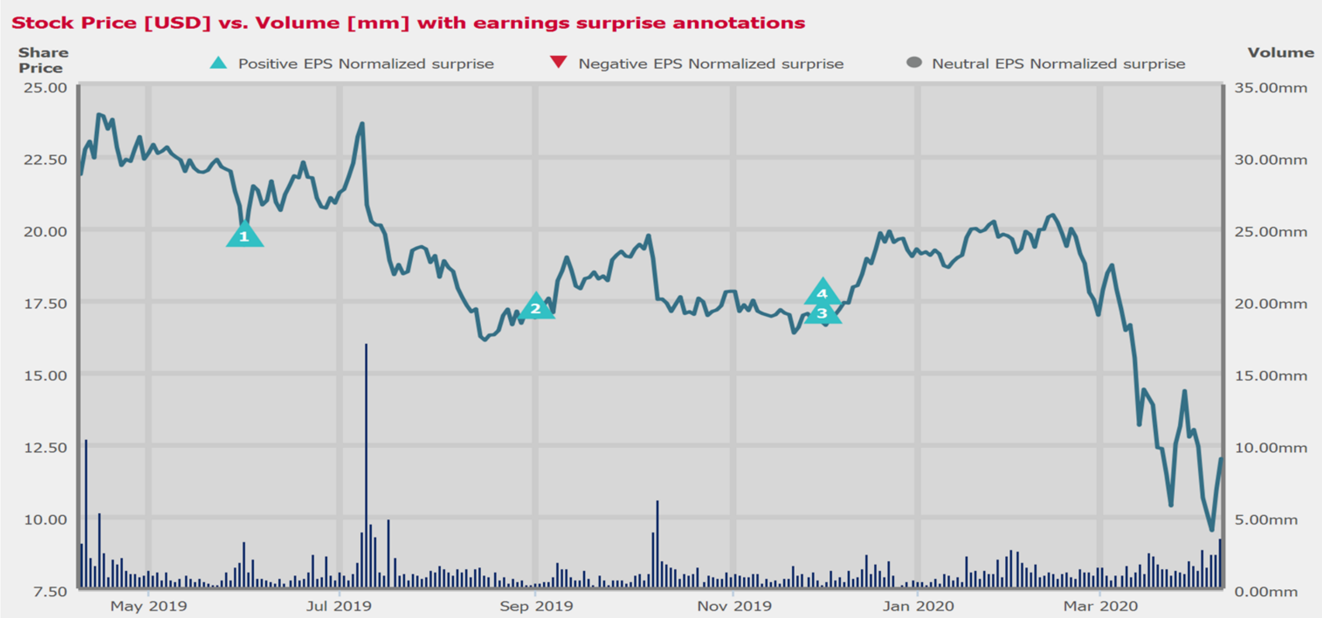
FQ1 2020 Earnings Call Transcripts

Tuesday, April 07, 2020 9:00 PM GMT

S&P Global Market Intelligence Estimates

	-FQ4 2019-	-FQ1 2020-		-FY 2019-	-FY 2020-	
	CONSENSUS	CONSENSUS	SURPRISE	CONSENSUS	CONSENSUS	GUIDANCE
EPS Normalized	0.21	0.35	▲14.29	1.06	0.64	-
Revenue (mm)	1569.02	1461.30	▲3.07	5764.37	5280.40	6108.87

Currency: USD
Consensus as of Apr-07-2020 5:10 PM GMT



- EPS NORMALIZED -	CONSENSUS	ACTUAL	SURPRISE
FQ1 2019	-	0.38	-
FQ2 2019	0.12	0.17	▲1 41.67 %
FQ3 2019	0.28	0.31	▲2 10.71 %
FQ4 2019	0.21	0.26	▲3 23.81 %

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Presentation

Operator

Good morning, and welcome to the Levi Strauss & Co. First Quarter 2020 Earnings Conference Call. My name is May, and I will be facilitating the audio portion of today's interactive broadcast. [Operator Instructions]

At this time, I would like to turn the call over to Ms. Aida Orphan, Senior Director, Investor Relations. Ma'am, please go ahead.

Aida Orphan
Senior Director of Investor Relations & Risk Management

Thank you for joining us on the call today to discuss the results for our fiscal -- first fiscal quarter of 2020. Joining me on today's call are Chip Bergh, President and CEO of Levi Strauss; and Harmit Singh, our Executive Vice President and CFO. We have posted complete Q1 financial results in our earnings release on our IR section of our website, investors.levistrauss.com. The link to the webcast of today's conference call can also be found on our site.

We'd like to remind everyone that we'll be making forward-looking statements on this call, which involve risks and uncertainties. In particular, at this time, the COVID-19 pandemic is having a significant impact on the company's business, financial condition, cash flow and results of operations. There is significant uncertainty about the duration and extent of the impact of this pandemic. The dynamic nature of these circumstances means that what is said on this call could change materially at any time, and that actual results could differ materially from those contemplated by our forward-looking statements. Reported results should not be considered as an indication of future performance. Please review our filings with the SEC, in particular, the Risk Factors section of the quarterly report on Form 10-Q that we filed today for a discussion of the factors that could cause our results to differ. Also note that the forward-looking statements on this call are based on information available to us as of today's date. We disclaim any obligation to update any forward-looking statements except as required by law.

During this call, we will discuss certain non-GAAP financial measures. Reconciliations to the most directly comparable GAAP financial measures are provided in the earnings release on our IR website. These non-GAAP measures are not intended to be a substitute for our GAAP results.

Finally, this call in its entirety is being webcast on our IR website, and a replay of this call will be available on the website shortly.

And with that, I'll go ahead and turn it over to Chip Bergh.

Charles Victor Bergh
President, CEO & Director

Thanks, Aida. Good afternoon, everyone, and thank you for joining our Q1 earnings call, which will be unlike most typical quarterly earnings calls, as while we will cover Q1 results, we'll focus more on updating you on where we are with the crisis at hand and how we are navigating the uncertainty that we're all facing. What is happening in the world around us is not just a human tragedy, but will likely result in a significant global economic tragedy. The biggest challenge we're all dealing with right now is uncertainty. How long will this continue? How deep of an economic crisis does the pandemic create? How will the consumer respond when the crisis abates? And ultimately, what is the shape, size and scope of the apparel sector when it's over? Frankly, trying to forecast this is nearly impossible. No one can control the virus or even the economic fallout, but we can control how we react to the crisis. I am very optimistic about our prospects for the future, both navigating through the crisis in the short to medium term and in the long term recovery, and I believe we are well positioned, if not better positioned than most companies, in our industry.

We had a great first quarter. Our business was humming coming into the crisis, again, reaffirming the robust strategies that we are executing and the momentum we had prior to the crisis erupting globally. But beyond the strength of our business and the underlying momentum, here is why I'm confident that we will emerge stronger on the other side. We have one of the world's most iconic, most loved brands in Levi's, and consumers will come back to brands that they love and trust. We haven't gone dark either. We're investing in strengthening our bond with our fans during these moments of isolation. We have a strong balance sheet and $1.8 billion of liquidity. We have an experienced management team that has a track record of making tough choices to cut costs, just as we did back in 2013, 2014. We've aggressively cut costs before, and we're on it now. Inventories are down and a significant majority of our inventory is core replenishment, which can be carried over to future seasons. We're focused on innovation. F.L.X. will be an advantage during this time as we'll be able to bring newness when stores reopen, regardless of when that is. And the innovation over the last month, leveraging digital tools throughout this organization, has been awesome.

Our strategy to diversify the business, which we've been executing now for years, makes us less vulnerable to the shocks that may be felt in some countries and channels. Our DTC business is now more than 40% of our total business, up from under 30% 5 years ago. Our e-commerce business has more than doubled in the last 5 years and is our fastest-growing business. Finally, we have something nobody else in this industry can claim, a company history of 167 years. We've been through other crises, some perhaps even more existential than what we're currently facing. We've seen it all, the Great Depression, 2 World Wars, earthquakes, fires and, yes, even the 1918 flu pandemic. Not only did we pull-through all of these, we use crisis to galvanize the path forward, and we will do it again. I also believe that crisis presents opportunities, and we will be ready to act on those that make good strategic sense, whether that's taking back underperforming franchise businesses or upgrading real estate locations because of other retailer bankruptcies or finding great talent in a decimated job market. The crisis gives us an opportunity to not just renew the business, but to reset it for the future.

Net, we are not managing through the crisis by playing defense. We will play to our strengths, leveraging the strength of the brand, our connection with our fans and the digital capabilities and omnichannel capabilities that we've invested in over the last few years. At the same time, we don't have our head in the sand. We will also be aggressive on cost takeout in light of the impact that the crisis will have on revenue and our structural economics, but we will be deliberate and thoughtful about how we do this, so we don't cut core capabilities and the things that have created our success over the last few years.

Let me give you a little more color on a few of these areas. First, we are very focused on engaging with our fans during their isolation, cultivating a deeper love for the Levi's brand. Just when the music festival season was supposed to start, all festivals have been canceled or postponed. To help fill the void, we launched a month-long virtual music festival with our Instagram Live 5:01 concert series. Each week night at 5:01 PM, artists such as Snoop Dogg and Brett Young are performing live in their Levi's, connecting with our fans while they're doing their part to stay home and curb the spread of the virus. Sentiment from this series has been so extremely positive, and we're finding more users are viewing these live sessions every day. This is something that is authentic. Truly something only Levi's could do. We're also replicating digital strategies that worked in China during and after their lockdown by featuring do-it-yourself content on our website that inspires our fans to customize their Levi's products at home.

Second, we're pivoting our marketing approach in response to the current environment. For example, our recently launched Super Mario collaboration with Nintendo is flying off the shelves in China, and it's also resonating in our e-commerce sites in Europe because we built excitement and demand through social media campaigns. The Super Mario collection will be dropping in the U.S. later this week. People are looking to connect these days, and Super Mario puts a smile on everyone's face.

Third, as you know, we recently launched the Levi's brand mobile app, and we're building loyalty with fans around the world, giving them another way to engage with the brand and another option for them to shop in whatever format they prefer. We've seen early success with strong consumer acquisition and enrollment rates and monthly engagement with exclusive product offerings, like the recent launch of our authorized vintage collection, which has been selling through very well. We will continue to scale and ramp our loyalty program and the app throughout this year.

The culture of innovation deeply embedded at LS&Co. is helping us evolve how we're working internally as a team and with our customers during this crisis. For example, we've accelerated the rollout of new technology we developed in our Eureka Innovation Lab, photorealistic 3D renderings of denim garments and samples. This allows us to digitize the sampling process, enabling us to sell to merchants from images rather than requiring physical samples. We leveraged this technology recently in our most recent line assortment meeting. Normally, this meeting brings around 100 merchants and marketers to our San Francisco headquarters from around the world, and is followed by cascading meetings over multiple weeks as they engage with their regional and local counterparts. By leveraging this digital technology to hold the meeting virtually, we were able to engage everyone simultaneously and complete this process in one meeting, taking weeks out of our go-to-market cycle. The feedback was that this may have been the best assortment meeting ever, and we may never go back to live meetings. This technology and others like it will drive efficiency, speed to market and reduce waste, while improving our operations through and beyond the crisis.

Finally, as we navigate this time of crisis, we will continue to be guided by our values and long-standing commitment to profits through principles. Supporting our communities through tough challenges is nothing new to LS&Co. We have a legacy of leadership and of doing the right thing, and we're taking steps to fulfill that responsibility again. Our response to the COVID-19 impact will evolve as the crisis continues to play out. But to start with, we've announced a $3 million philanthropic program in partnership with the Levi Strauss Foundation, and we're working with the foundation to launch a 3:1 matching campaign for our employees' donations to community groups, stepping up to meet local needs and organizations supporting COVID-19 efforts, from ensuring out-of-school students still have access to meals, to delivering needed supplies to homebound senior citizens. Additionally, the Red Tab Foundation, which supports our employees and retirees with short-term grants to help them get through trying times, is expanding its efforts.

Harmit will review the aggressive cost actions we're taking in light of this situation, but I want to cover the compensation and furlough-related announcements we're making today. Our Board members will forego their cash compensation, and we're announcing broad salary cuts for executives and leaders across the organization, including 50% from me. And effective April 13, we're furloughing all U.S. hourly retail employees and our wholesale merchandise coordinators.

In closing, I will say again, while this will be a challenging time with significant uncertainty, we will be laser-focused on what's within our control to mitigate the impact to the degree possible as the world grapples with the virus and the economic fallout.

We have many strengths on our side that I'm confident will bring us through the current environment: an iconic and beloved Levi's brand that has never been stronger; a solid balance sheet; a skilled, dedicated and courageous leadership team that will take aggressive action on costs; a culture of innovation and strategies that have transformed the business over the last 8 years that will help us chart our course through the coming months. We're taking swift and decisive action to ensure we remain a winner in our industry, and that we emerge from the storm as strong or stronger than going into it. The true character of a company is shown in a time of crisis, and as we have in the past, we will navigate this one by leveraging our strengths and seizing opportunities that will help us continue to thrive over the long term.

I'll now turn it over to Harmit to walk through the quarter in further detail. Harmit?

Harmit J. Singh
Executive VP & CFO

Thank you, Chip. Good afternoon to all of you. I hope all of you, your families and loved ones are safe and healthy.

The coronavirus is having far-reaching consequences around the world. Before I walk you through our results for the quarter, let me share what we're doing now to respond to the challenge of COVID-19. Our focus is to balance cash preservation and profit protection. To that end, we're ensuring adequate cash flow and liquidity to navigate the choppy waters, including suspending our share buyback program and drawing down on our revolver. We are actively managing our supply chain and inventory flow, while leveraging our F.L.X. platform, while cutting our second half purchases and evaluating the most efficient way to reflow the small amount of seasonal items we have on hand, and soon, we will leverage existing capabilities, such as ship from store, to help manage inventory.

On cost management, we're substantially reducing advertising spend, and we are pulling SG&A levers available to us to cut costs in our business operation, such as the compensation cuts and furloughs Chip mentioned, freezing travel and headcount, significantly reducing variable expenses and negotiating with landlords to abate rent for the periods stores are closed. And we're reducing our capital spend on discretionary projects while reevaluating our store rollout plan. We're deferring our new distribution center in Europe and are now targeting a reduction in annual CapEx spend of up to 30%. We have closed the majority of our doors and those of our franchise partners to help slow the spread of the virus. Currently, about 70% of these doors are closed, 20% are fully open, and the balance are operating on reduced hours.

With respect to our first fiscal quarter of 2020, we are pleased to have delivered strong revenue growth, record-high gross margin and adjusted diluted EPS ahead of our expectations. And if it weren't for the virus impact, we would have exceeded our adjusted EBIT expectations as well. The underlying momentum of our business continued to be very strong as well as our balance sheet and returns on invested capital. This is especially true in our global store fleet, where the 3-year average return on invested capital for the fleet is over 20%. As I walk you through additional detail on our first quarter results, my comments will reference constant currency comparisons on a year-over-year basis in U.S. dollars, unless I indicate otherwise. We published the details of our reported and constant currency results in today's press release so I will not repeat all of those here.

First quarter net revenue of $1.5 billion grew 6%. The estimated $20 million adverse impact in Asia of the coronavirus, combined with the unrest in Hong Kong, adversely impacted revenue growth by about 2 percentage points. Also note that we're lapping a strong first quarter 2019, which we grew 11% overall. Levi's men's volume was flat for the quarter. Our global 10 -- our top 10 global wholesale accounts collectively grew 5%, and our top 5 mature markets grew 3%, and within that, the U.S. was up 2% for the quarter. Our total women's business grew 12% in the first quarter on the back of high-teens growth last year. And our total tops business grew 5%. Direct-to-consumer grew 13% for the quarter. Revenue from our brick-and-mortar stores were up 14% globally, and global e-commerce was up 12%. Our total digital ecosystem grew double digits in Q1 and now comprises more than 15% of our total company's revenues, double the size of what it was just 3 years ago. Gross margin in the first quarter was 55.7%, a record high for the company. This represented an increase of 110 basis points on a reported basis, reflecting the benefit from the price increases we have taken as well as higher direct-to-consumer and international growth. Currency effects were negligible.

Adjusted EBIT margin of 12.6% declined 180 basis points on a reported basis, entirely due to our plan to smooth advertising, higher charges from equity-settled awards and the timing of -- and the timing of related payroll taxes and approximately $10 million of lost adjusted EBIT from the coronavirus. The benefit of Black Friday revenues in the current year, which favorably impacted adjusted EBIT margin by about 70 basis points, was substantially offset by an estimated 50 basis points adverse impact from the coronavirus. Adjusted diluted EPS for the first quarter of $0.40 increased $0.02 on a reported basis compared to the same quarter in the prior year, slightly trailing 8% reported adjusted net income growth due to the increase in the company's share count resulting from our IPO. The estimated adverse impact of the coronavirus was $0.02. Currency unfavorably impacted adjusted net income by 2 percentage points, and adjusted EPS -- diluted EPS by $0.01.

Now I'll share more detail on the first quarter results of our 3 regions in constant currency unless I state otherwise. Our results benefited from the calendar 2019 Black Friday week, which fell into our fiscal Q1 2020. As such, my regional comments today will focus on our business results adjusted for Black Friday. First quarter revenue in the Americas was flat when adjusted for Black Friday. We were really pleased with direct-to-consumer growth of 10% when adjusted for Black Friday, which was a combination of e-commerce growth, new brick-and-mortar stores in the region and same-store sales growth. The region's direct-to-consumer growth was offset primarily by a decline in U.S. wholesale, which was down 4%

when adjusted for lower shipments to off price. This was a bit better than our expectations, especially as we were lapping high single-digit U.S. wholesale growth in the prior year. So on a 2-year stack, U.S. wholesale was positive. Our women's business continues to be the standout of U.S. wholesale, where it grew double digits this quarter.

Europe's revenues were up 11% when adjusted for Black Friday, with growth, again, broad-based across channels, product segments and markets, and this was another quarter of lapping double-digit growth in the prior year. Direct-to-consumer revenues were up 9% adjusted for Black Friday, and wholesale revenues were up 12% on broad growth across markets and our customer base. The women's business posted another quarter of stellar growth, up 19% versus last year. And Levi's men's margins grew an impressive 10%, fueled by innovative new fits that resonated with consumers.

In Asia, we estimated net revenues growth of 9% when adjusted for declines related to the coronavirus in the region and the political unrest in Hong Kong. Most of the region's markets grew. In China, prior to initiating store closures in response to the outbreak, our turnaround strategies were really gaining traction as double-digit revenue growth was eclipsing our internal expectations there. At the peak, nearly all our doors were closed, and although traffic remains well below prior year levels, we have now reopened all our company-operated stores in China, including our beacon store in Wuhan and all but 6 franchise doors. Though sales in China remained down to prior year, performance is sequentially improving each week, with our mainline store performance leading the charge, given the premium collection therein. And the company is in the process of taking back stores in Guangzhou and Chengdu from our prior franchise partners. Sales of our digital footprint in China, meaning our e-commerce sites and those operated by our partner, grew in March versus prior year, in particular driven by the strong growth in women's fashion fits. We leveraged our partnership with Tmall in the launch of our Super Mario collaboration, generating a ton of buzz and strong sell-through. And China's gross margins in March are higher than prior year, reflecting the favorable revenue shift towards the direct-to-consumer channel. We are encouraged by the progress we have seen in China, and we are using artificial intelligence and consumer insights to inform the playbook we'll use for other markets as they begin to recover.

Turning to balance sheet and cash flows. In dollar terms, total inventories at the end of the first quarter were down 7% compared to a year prior, continuing the positive inventory leverage trend. The composition of inventory was healthy with more than 70% being evergreen products that carry over well into future seasons. We have full visibility into our inventory across all stages of our supply chain, and we are working proactively, leveraging the strong relationships we have with our suppliers and customers around inventory levels, and have aggressively cut purchases and canceled orders for the second half of 2020. We are working with our suppliers to manage the flow of finished goods, in line with reduced demand in the short term. We are pulling all agility levers, including F.L.X., which is unique to LS&Co. to respond to changes in demand. We are working to extend the life cycle of the inventory we have on hand by carrying evergreen products forward into subsequent seasons, while infusing some new products in the mix to deliver freshness of assortment. We feel confident that we can minimize raw material liabilities by carrying over fabric into products for subsequent seasons as much as possible. Even in a promotional environment, given the strength of our brand and inventory actions, we believe we can strike a good balance between gross margins and driving revenue.

We have built a very healthy balance sheet and ended the quarter with access to nearly $1 billion in cash and another $820 million available under our credit facility, which is backed by strong high-quality financial institutions. And our next debt maturity comes in 2025. Cash is king in situations like this, so in the current environment, we felt it prudent to further augment our cash on hand and accordingly drew $300 million on our credit facility last week. This brings available cash to $1.2 billion while retaining availability of more than $0.5 billion on our revolver. With nearly $1.8 billion in total liquidity, we are better positioned than many to meet this challenge in the near term and emerge stronger when things normalize.

We'll continue to deploy capital on a disciplined basis so as to fuel select long-term growth initiatives, although at a prudently lower level with fewer store openings than we announced on our last call. We are also sticking with quarterly dividend payment for now and have announced our second quarter dividend, which will again be $0.08 per share. This will bring first half dividends to approximately $64 million, an increase of 16% as compared to the first half of 2019. We will reassess dividends for the balance of the year as the situation evolves.

Under our share buyback program, we've already repurchased a sufficient number of shares to offset our 2020 employee stock grant dilution estimate. Based on present circumstances, we do not anticipate the need to do further share buybacks for the remainder of the year and accordingly have suspended the program.

And finally, a word on guidance. Given the unprecedented phenomenon of the coronavirus pandemic and the significant economic uncertainty it introduces, we have made the decision to withdraw guidance for the time being. Once we believe that we have sufficient visibility to reinstate guidance, we will do so.

In summary, prior to when the coronavirus started to impact our results, our business trends and financial results were very strong. And even in the current situation, we remain a strong, purpose-driven company with powerful iconic brands and a confident outlook on our long-term growth opportunities once we emerge from the current crisis. We are geographically diversified, which will provide us the ability to capture best practices as well as sales as they come back in various markets. Our global diversified supply chain is agile enough to enable us to wisely manage inventory and to maximize our opportunity for working capital efficiency. We are being nimble in response to the developing situation. In addition to the actions we're taking now, we'll continue to drive lower costs as necessary to mitigate the profitability. To mitigate the -- okay. We're taking -- we're being nimble in response to the developing situation. In response to the actions we're taking now, we'll continue to drive lower costs as necessary to mitigate the profitability pressure from lower revenue. And we'll rightsize capital development to cover our highest priority, in order to preserve and drive the most efficient use of cash.

Our strong balance sheet provides us sufficient liquidity to carry us through this difficult time. We have a deep talent base around the world, and most importantly, we are one of the most iconic apparel brands loved by fans worldwide and increasingly by younger consumers who care about companies that do well and do good. We will focus on what we can control and expect to emerge from this challenging time as a stronger company.
With that, we'll now open it up and take your questions.

Question and Answer

Operator

[Operator Instructions] Your first question is from the line of Matthew Boss from JPMorgan.

Next participant is from the line of Heather Balsky from Bank of America.

Heather Nicole Balsky
BofA Merrill Lynch, Research Division

Glad to hear everything is going well, and everyone is in good health. Can you just talk about how your various wholesale partners in Europe and in the U.S. are responding to this in terms of working capital and in terms of inventory orders? And then can you talk about the levers and tools you have to manage working capital during this downturn?

Harmit J. Singh
Executive VP & CFO

Heather, glad to see you safe and healthy. Thanks for asking the question. We are blessed that we have customers and wholesale partners that we have great relationships with. We are working with each one of them on a case-by-case basis. We're collecting the cash that's owed to us. We are managing inventory. The good news is that, as I mentioned, given that our inventory levels were generally healthy as we entered the quarter and ended the 2019, we're in a good spot. A large piece of our inventory, including the in-trade inventory, is core. So we believe that once the retailers open their stores and we open our stores, we'll be able to work through that. And we are in discussion with our partners. We are asking them to pay us what they owe us, which is the standing of a good relationship, and we're working through with them to be ready when the crisis is over and behind us.

Charles Victor Bergh
President, CEO & Director

One other quick thing I would add, Heather, is we do have customers that are still in business and still opening their doors and still shipping products. So Walmart, Target, Amazon here in the U.S. are all trading, and we're still shipping product to them, and same is true with some of the pure-play e-commerce players in Europe. So we do have some revenue right now and some consumer transactions happening in wholesale. But as you know, the majority of the large department store chains here in the U.S. are closed. And that's largely true in Europe, across Europe as well.

Operator

We have our next question from the line of Matthew Boss from JPMorgan.

Matthew Robert Boss
JP Morgan Chase & Co, Research Division

Great. And congrats on a nice quarter. So Chip, as we think about the brand's top and bottom line acceleration into the crisis, I thought your prepared remarks were actually really interesting. I guess how do you weigh market share versus profitability to emerge from this as a stronger brand, as you said, without taking some level of a step back?

Charles Victor Bergh
President, CEO & Director

Yes. So I sort of talked about it in the prepared remarks, we are very focused right now on how do we come out of this stronger as a company, but also how does the Levi's brand come out of this crisis even stronger? So let me hit a couple of things on why I think that's possible. First of all, coming into the crisis, there's a very good proof point about the strength of the brand, and that is called pricing power. We have been talking about pricing power. We took pricing at the end of last year, and you saw it flow through in the gross margin and gross profit line this year, I mean -- or this past quarter, Q1. So nothing better demonstrates the strength of a brand than the ability to price. And we did that successfully in Q1.

Second, we're continuing to invest during this period. We have not gone completely dark. We are cutting back -- to be very clear, we are cutting back on A&P, but we're being deliberate and strategic about actions that we can take to strengthen the relationship between the brand and the consumer. And the 5:01 concert series is, I think, a great proof point of that. And every day, it just keeps getting more momentum. We're trying to find ways to connect more strongly with consumers during the period of time that they're cooped up.

Third is on the product front. We are going to continue to bring newness. This Super Mario from Nintendo collaboration, that's dropped in China and Asia and Europe and drops later this week here, brings some fun and some newness to the brand. So we're not stopping. We're not pausing. We're continuing to go forward on product and product innovation. And finally, we're going to continue to leverage digital, everything digital. So we launched the app a few months ago, and that's off to a really good start. We've got our loyalty program, we're going to continue to double down on that, and our e-commerce business.

And then I guess the last thing I would say is I do believe crisis creates opportunities. There are going to be some players in this industry that don't make it, and that's going to open up real estate opportunities for us potentially. It could -- we could wind up being the share beneficiary of others not making it. And as I kind of cruise the Internet and Instagram and look at our Facebook page and stuff, a lot of people are writing about, well, I'm working at home, I'm kicking back in my Levi's, and it's become a Levi's moment. And I think that gives us something to build on as we come out of this crisis.

So we're really focused on it, and I'm very, very confident that whatever the shock is to the consumer and the economy, when the consumer does emerge from hibernation, they're going to want to go back to the brands that they love and to the brands that they're comfortable with, and they've got a relationship with. And that's why I believe we're poised to win in this environment.

Matthew Robert Boss
JP Morgan Chase & Co, Research Division

Great. Maybe to switch gears to Europe. So it's close to 1/3 of your sales. It's been a meaningful driver of growth. So maybe precrisis, can you speak to profitability metrics and drivers of the pricing power that you were seeing in Europe? And then as we think postcrisis, just the remaining opportunity as we think about the profitability and pricing opportunity that you continue to see in Europe.

Harmit J. Singh
Executive VP & CFO

Sure. Matt, precrisis, as you know, we've been growing Europe now in the mid-teens and for a couple of years at 20%. Despite that growth, our margins have grown. So on an operating margin basis, we have seen clear leverage, which means that we've been growing the top line as well as driving leverage to the bottom line. We did take pricing in the second half of last year. That pricing stuck and has continued to stick just -- until just before the crisis. The brand is very, very strong. Our entire portfolio of products are resonating really well in Europe. So think men's bottoms, which were up 10% in the quarter. Our women's business grew 19% on top of real strong growth the previous year. And so we've also continued to see growth in tops. Execution continues to be very strong across both franchise and our company operations. So our view is that, as stores begin to reopen, the strength of the brand, besides all the pricing that we took and the wonderful execution that the team on the ground brings to the market, I think will stand us well especially as some of our other peers or competitors, who are in a tougher position, think through things differently. So we've gained market share. We think we'll emerge out of the crisis a lot stronger.

Operator

Next question is from the line of Paul Lejuez from Citigroup.

Paul Lawrence Lejuez
Citigroup Inc, Research Division

I'm curious, and I'm sorry if I missed it, but did you say that you've seen an acceleration in your e-com sales since stores have been closed? And curious what you're seeing in terms of changes to the basket size and mix of business. And just curious if online sales may be skewed towards bottoms versus tops more so these days than normal.

Harmit J. Singh
Executive VP & CFO

Yes, Paul. So the acceleration or the growth in the digital business, we have seen in China. So China at the end of the first month as stores have opened, the business is positive year-over-year. Across our other e-commerce business, the business is broadly flat, I would say. Asia is up. Asia is positive. Europe and the U.S. is slightly down. So overall, the business has been flat. In terms of your question of bottoms and tops, the ratio, both in China as well as in the U.S., is broadly the same it was before the crisis. So we haven't seen any dramatic change in the mix of the business.

Charles Victor Bergh
President, CEO & Director

No Zoom effect?

Paul Lawrence Lejuez
Citigroup Inc, Research Division

Thanks, Harmit. And just to be clear...

Harmit J. Singh
Executive VP & CFO

I mean I think the other -- it's important to note that over the years, we've continued to add stretch in our bottoms. And I think at last count, over 80% of our bottoms had reasonable amount of stretch. So to Chip's point, people working at home probably are feeling a lot more comfortable.

Paul Lawrence Lejuez
Citigroup Inc, Research Division

Yes. And can you also talk about in your DTC business, first quarter, ex Black Friday, strong performance? I'm just curious if you could break down e-com versus full price versus factory stores.

Harmit J. Singh
Executive VP & CFO

I think if you look at our first -- quarter one, our brick-and-mortar was up 14; e-commerce was up 12. I don't have the e-commerce numbers on top of my head ex Black Friday. But I don't have it off the top of my head, but I would say both were reasonably strong from that perspective.

Operator

Your next question is from the line of Kimberly Greenberger from Morgan Stanley.

Kimberly Conroy Greenberger
Morgan Stanley, Research Division

Okay. Fantastic. I wanted to start with just understanding what percentage of your total inventory would have some sort of a seasonal element as opposed to evergreen sort of product? If you could help us understand that because perhaps there's less markdown risk on the evergreen product. And then secondarily, what are you hearing from your vendors in terms of third quarter orders or fourth quarter orders? What's the early look at your -- at your order book? And then lastly, what sort of markdown support or margin support are your wholesale partners currently looking for?

Harmit J. Singh
Executive VP & CFO

Yes. Kimberly, as I said, the good news is we have worked away at inventory and improving inventory turns over the last couple of years. So the inventory leverage, which is the growth or the decline in inventory relative to the growth in revenue, has been positive. So we entered the quarter with inventory down 7%. 70% of that is core. I would say seasonal inventory is about 15% to 20%. And we are working through with both our wholesale partners as well as franchisees in ways and means we can, as the stores open, sell that product. I think, going back to what Chip said, the strength of the brand as well as the newness that our products bring to bear, we are generally confident that we can balance growing revenue and gross margin. The other thing on gross margin, just to your point, we're starting at a very good spot. Our gross margins are at a record high. And I think that will bode us well, both through the crisis as well as we emerge out of it.

To your question about the discussions on order book, et cetera, again, it's case by case. We have adjusted our inventory based on the demand signal we have got. We have a fairly flexible supply chain, and so if things come back faster, we can flex it up. We also have the F.L.X. platform where we can chase fashion trends because we have length, which is, again, something that is going to be a competitive differentiation for us relative to the rest of the folks in the apparel industry.

Charles Victor Bergh
President, CEO & Director

I guess the only other thing to add is -- just real briefly, is -- and I think we said it in the prepared remarks, but we have cut all unfilled purchase orders in the second half of the year. So we are trying to aggressively manage the second half inventory in terms of inbound, just recognizing that everybody -- all of our customers are going to have to work off this inventory from their stores being closed. But the good news is more than 70% of our inventory is core replenishment and that can carry over to the next season.

Kimberly Conroy Greenberger
Morgan Stanley, Research Division

Great. Okay. Then last for me. I understand that when China reopened, the stores were still comping down. If you think about the last week or 2, what's sort of the magnitude of the recent performance in comparable store sales for China?

Charles Victor Bergh
President, CEO & Director

Yes. I hate talking about averages on a store base of 500 stores. We have mixed performance there. We have some stores that are already comping ahead of prior year, and we have some that are still significantly down versus prior year. But I think what's important is, since the stores started reopening, traffic has kind of improved sequentially, kind of week over week. And our business performance in the aggregate has improved week over week, and we're seeing our e-commerce business now comping positive, performing ahead of a year ago. So I kind of use that as light at the end of the tunnel. The consumer is coming back, albeit maybe a little bit tentatively, but there's -- there are green shoots of optimism.

It's also worth noting that our mainline doors, particularly the ones that have our more premium assortments in them, seem to be doing best right now versus prior year. And that may be part of the playbook as we go forward.

Harmit J. Singh
Executive VP & CFO

And gross margin, Kimberly, you heard me say, gross margins were up.

Operator

We have our next question from Bob Drbul from Guggenheim.

Robert Scott Drbul
Guggenheim Securities, LLC, Research Division

I was just wondering if you guys -- I was wondering if you could talk a little bit more just like U.S. wholesale, but specifically the mass channel in terms of what you've seen there, what you're seeing there. A lot of discussion around tops in mass versus bottoms in mass. I was just wondering if maybe you could just talk to those trends, even post quarter end.

Charles Victor Bergh
President, CEO & Director

Okay. Well, I did kind of allude to it that both Walmart and Target are still open, and we continue to be very optimistic about the test which we've now continued to expand, we're kind of north of 100 doors with Target, feeling really, really good about that. As Harmit mentioned earlier, we haven't really seen a dramatic shift from bottoms to tops. I know a lot of people are talking about that, and they're calling it the Zoom effect. People are wearing their pajamas down below and a nice top up above. But we haven't really seen a dramatic shift to our mix from tops to bottoms on our businesses. So we're encouraged with the business performance of Levi's Red Tab at Target. We also have our value brands, Signature and Denizen, in Walmart and Target. And they actually were flattish, down about 1 point or 2 points versus the prior year in Q1. And that may have been -- we're still trying to figure out how much of that was consumer and consumption-driven versus those customers shifting their open-to-buy budgets to other household necessities: toilet paper, paper towels, hand sanitizer and food. I suspect it's probably more of the latter than it is the former. So we'll see as this crisis unfolds.

But I do think it's important to say that we do have a portfolio of brands, and these value brands play a role in our portfolio. And as the consumer gets shocked and potentially as we see big spikes of unemployment, we've got a brand there for the consumer, and it's great product at that value price point.

Robert Scott Drbul
Guggenheim Securities, LLC, Research Division

Got it. And in terms of the supply chain generally, have you been able to procure everything sort of timely? And has that been operating for you pretty smoothly?

Charles Victor Bergh
President, CEO & Director

We're good right now. Well, I was just -- I mean, very shortly, in short, yes, we're good. And we're good with what we have on hand right now. And particularly with just about everybody being closed, we're more than good. And we're pretty confident about what we have coming in for the second half. So a good part of the second half is already produced and waiting to go onto boats to ship over here for later in the summer when it should be hitting consumer -- or customers' floors.

Harmit, I don't know -- I'm sorry if I cut you off.

Harmit J. Singh
Executive VP & CFO

Yes. No worries, Chip. This is a wonderful virtual dialogue. But I'd say 3 other things, Bob. First, as a value-based company that's been around 167 years, we're taking full responsibility for finished, ready-to-ship orders. And we're working on timetables, adjusted timetables, with our vendors. We have a program in place for our vendors to get early payments at favorable market rates, and several vendors take advantage of this already. We're looking at ways to expand this program to the benefit of vendors. And last but not the least, Chip talked about a $3 million grant. Of that, we're granting $1 million to organizations that support apparel supply chain workers with a focus on public health responses, particularly for women, and we're working with industry stakeholders to explore options for broader collective response so that we can support workers during this crisis. So we're doing a lot more than just making sure the goods we need are delivered.

Robert Scott Drbul
Guggenheim Securities, LLC, Research Division

Got it. And if I could just sneak in one more question. I know that the Nintendo Super Mario Bros. launch has gone well internationally. Is it true that Chris Ogle got an early pair for the ones here in the U.S., and that's what he's wearing during this conference call?

Charles Victor Bergh
President, CEO & Director

He is absolutely wearing it. How did you know? That's crazy.

Robert Scott Drbul
Guggenheim Securities, LLC, Research Division

A little birdie told me that.

Charles Victor Bergh
President, CEO & Director

It is true. It's a really fun product. It hits later this week. So hopefully, everybody will go out and get some. Thanks, Bob.

Operator

Your next question is from the line of Omar Saad from Evercore ISI.

Next question is from the line of Jay Sole from UBS.

Jay Daniel Sole
UBS Investment Bank, Research Division

Great. Chip, you mentioned there could be some real estate opportunities that arise from this situation. Just related to that, can you talk about any progress you've made over the last quarter developing the full price store model for the U.S.?

Charles Victor Bergh
President, CEO & Director

Yes. It's -- we remain really optimistic about this new store model, which is smaller footprint, better location. We've got a couple of them. We have a few more coming. We're not stopping those. Those are still planned to open later this summer. The one I always talk about as an example is the Stanford Mall. We need to, I guess, get a little bit more clarity on how long and how deep and how much of a problem do we really have here from a financial standpoint before we can commit to whether we would accelerate that model or not. I mean, as Harmit said, balance sheet and cash is king right now, and we don't want to get out over our skis from a capital standpoint. But we're bullish about this, and I'm very optimistic about it, about the model itself. And I do think that there's going to be -- this economic shock is going to have an impact, and it will create opportunities, and it could create opportunities for us to find more of those kind of locations more quickly.

And if we've got the financial strength and flexibility, we may pounce on it and not miss the opportunity to capitalize on the environment and the situation that's going to happen. So we remain optimistic about it. These stores, the ones that we've opened that are kind of along the lines of this model, are profitable. I think Harmit said it in the script, but our ROIC on our store base right now on a global basis is like 20%. So we clearly have an opportunity for more mainline doors here in the U.S. We only have a little bit more than 30 right now. So we'll take advantage of the opportunity if the right opportunities come along.

Jay Daniel Sole
UBS Investment Bank, Research Division

Got it. And then maybe if I could just ask one more on inventory. You talked about the uncertainty of the situation, and it's got to be difficult to plan for holiday not knowing how consumers are going to behave and if they're going to be coming back to stores or if they're going to increase shopping online. Can you just touch on a little bit more the kind of flexibility that you have to be able to shift inventory between stores and online? Just to react to whatever happens as we go through the rest of the year?

Charles Victor Bergh
President, CEO & Director

Yes. Well, I'd say, first and most importantly, we've developed the ability to ship from store. We can fulfill e-commerce orders from store, and in fact, we're going to start firing that back up here in the next week or so, just so we can mitigate the potential risk of our e-commerce distribution center or the largest distribution center potentially getting shut down. I mean, in a number of states, distribution centers that aren't shipping food or medicine are getting shut down as not being necessary or business-essential. And so we want to mitigate that possible risk, and we've built that muscle, that capability. So that's the first thing I would say.

The second thing is we've got -- I talked about our e-commerce site, it's basically our best store, and it has a large variety of PC9s and assortments that we have in both our mainline and outlet doors. And we have plenty of flexibility to shift inventory from stores to e-commerce and in both directions. So we've got maximum flexibility to do it.

Harmit J. Singh
Executive VP & CFO

Hey, thanks, Jay.

Charles Victor Bergh
President, CEO & Director

Is Omar back?

Harmit J. Singh
Executive VP & CFO

Yes. He just texted me. I think he's back. So operator, can you try and see if you can get Omar back? Otherwise, we'll do one more question.

Operator

[Operator Instructions] Your next question is from the line of Omar Saad from Evercore ISI.

Omar Regis Saad
Evercore ISI Institutional Equities, Research Division

Are you guys there? Can you hear me?

Harmit J. Singh
Executive VP & CFO

Yes, Omar.

Charles Victor Bergh
President, CEO & Director

Yes, we can.

Omar Regis Saad
Evercore ISI Institutional Equities, Research Division

Apologies if this has been asked, but I wanted to kind of dive into the consumer behavior side of this equation. I know it's easy and enticing to talk about the pre-coronavirus world and the post-coronavirus world. But it's not yet clear, I think, how long we're going to be in this coronavirus world and what it means on consumer behavior. So anything you're learning in how consumers are acting in China or different parts of China? Any thoughts on how consumer behavior might be the same or different in your categories in Europe or North America? And then, I guess, is the key here when you can reopen stores? Or is the key here when consumers feel comfortable and safe to go back to things like concerts and music festivals and other kind of public bars and happy hours, jeans and casual attire occasions? Or -- so maybe you can kind of walk me through some of those things as well.

Charles Victor Bergh
President, CEO & Director

Yes. Well, so I'm the big consumer guy here, and we're trying to learn as much as we can in China. And I would say that China may not be a perfect model for everything that we might expect to see in the West, and that's for a whole host of reasons. But it's quite possible here in the West we're going to see a much bigger economic impact, more job loss, and we're already seeing it, right? 10 million people filing for unemployment in the last 2 weeks. And I think all of those dynamics could potentially have an effect on the consumer.

But what I can tell you about China is that, as we brought our stores back up, freshness and newness matter. Our top-selling item for women is the new balloon fit, which we literally just launched. And so they're looking for fashion, they're looking for newness, they're looking for something exciting. The Super Mario Bros. collaboration that we launched on Super Brand Day on Tmall has literally taken off. So newness, fun-ness is going to be important, I think. And we're very, very conscious of that as we plan the second half to make sure that we're leaving ourselves enough flexibility to make sure we've got newness on the floor when the consumer does come back.

But I think what's going to happen here in the U.S., what's going to happen with the consumer, it's one of the big unknowns. And I kind of alluded to it right at the top. It's very difficult to forecast the future right now, not knowing how deep or how long this goes. I would say the deeper the economic impact is and the longer everybody is cooped up, the more of a shock there will be to the system. And it may take longer for the consumer to come back. That's why I think it's really important that we continue to build our relationship with the consumer during this period of time of isolation. We're not going to let them forget about Levi's while they're cooped up in their home. And so building that relationship, remaining authentic and true to who we are. I'm very excited, as you know, as you can tell, from this -- the concert series that we're doing. We're challenging ourselves. What are the other "only Levi's could do that kind of thing" type of moments?

But I still think there's a lot more we don't know than what we do know right now. And we just have to see how the situation unfolds. And -- but continue to play to our strengths and learn from China. And as other markets in Western Europe begin to come back, learn from Western Europe and just keep building our playbook as we go. So that's kind of how I think about it. But as I said, I mean, I do think there will be winners and losers here. And given the strength of our brand, consumers are going to want to come back to their favorites and to the brands that they trust and that they love. And so I think that positions us really well.

Operator

We have our next question from the line of Dana Telsey from Telsey.

Dana Lauren Telsey
Telsey Advisory Group LLC

Chip and Harmit, as you guys have been talking about obviously -- as you've been talking about the expense management underway, one of the buckets, obviously, is occupancy. How are you thinking and what are you seeing in terms of lease terms, either lease renegotiations out of your fleet around the world globally, whether outlet or full line? And I totally agree, there's a lot of opportunity for you to get some better locations, even smaller ones in the U.S. when all of this is said and done.

Harmit J. Singh
Executive VP & CFO

Yes, Dana. Let me take a stab at that. We're in discussions, like most of other retailers, with landlords. And we are seeing success. I think we've got some great landlords, and they're being mindful of the situation. They like -- we were talking about the brand, they also want great brands. They also want great credit. And they want brands that are going to be here for the longer term. So we're working it case by case, and that's why I talked about it as an opportunity from an expense management perspective.

We also have governments outside the U.S., the U.K., for example, in the fiscal stimulus, they have given an abatement on property tax as a holiday. And so we are leveraging that in different markets. And we're working with the White House and the different associations to try and bring similar practices in the U.S. as part of stimulus form. So I think we feel good about where we are. Obviously, it's difficult to generalize. But as Chip earlier mentioned, if you think about it long term, there probably will be vacancies. It gives us an opportunity to both expand floor space for stores that are really doing well as well as we grow mainline in the U.S. and grow mainline across the world, it gives us opportunities to get into type A locations.

Charles Victor Bergh
President, CEO & Director

Okay. I think we'll call it there. We apologize for going over a little bit longer, but there were clearly some technology challenges with a couple of questions. Anyway, thank you all for dialing in. We are in a once-in-a-century type of situation right now. And I just hope that you all will stay safe and keep your families safe and healthy. And we look forward to talking with you at the end of the next quarter. And hopefully, we'll be able to talk with more specifics in terms of what we expect for the balance of the year.

Thank you all very much for dialing in, and take care of yourselves.

Operator
Thank you, presenters. Ladies and gentlemen, this concludes today's conference call. Thank you all for participating. You may now disconnect. Have a great day.