Transcript of
Columbia Sportswear Co.
Third Quarter 2017 Financial Results
October 26, 2017

Participants

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Gert Boyle – Chairman of the Board
Tim Boyle – President and Chief Executive Officer
Tom Cusick – Executive Vice President and Chief Operating Officer
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Presentation

Operator
Greetings, and welcome to the Columbia Sportswear Third Quarter 2017 Financial Results conference call. At this time all participants are in listen-only mode. A question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

I would now like to turn the conference over to your host, Peter Bragdon, Executive Vice President and Chief Administrative Officer. Thank you, Mr. Bragdon. You may begin.

Peter Bragdon – Executive Vice President and Chief Administrative Officer
Thank you. Good afternoon and thanks for joining us to discuss Columbia Sportswear Company's third quarter results and updated 2017 outlook. In addition to the earnings release we furnished an 8-K containing a detailed CFO commentary explaining our results and the assumptions behind our full-year outlook. The CFO commentary is also available on our Investor Relations website.

With me on the call today are Chairman of the Board, Gert Boyle; President and Chief Executive Officer, Tim Boyle; Executive Vice President and Chief Operating Officer, Tom Cusick; and Senior Vice President and Chief Financial Officer, Jim Swanson. Ron Parham was not able to join the call today.

Gert's going to start us off by covering the Safe Harbor reminder.

Gert Boyle – Chairman of the Board
Good afternoon. This conference call will contain forward-looking statements regarding Columbia's business opportunities and anticipated results of operation. Please bear in mind that forward-looking information is subject to many risks and uncertainties and actual results may differ materially from what is projected. Many of these risks and uncertainties are described in Columbia's annual report on Form 10-K and subsequent filing with the SEC. Forward-looking statements in this conference call are based on our current expectations and beliefs, and we do not undertake any duty to update any of the forward-looking statements after the date of this conference call to conform or update our forward-looking statements to actual results or the change in our expectations.

Peter Bragdon – Executive Vice President and Chief Administrative Officer
Thanks very much, Gert. I would also like to point out that during the call we may reference constant currency net sales growth, which is a non-GAAP financial measure. A reconciliation of constant currency net sales to net sales as reported under US GAAP is included in the supplemental financial tables accompanying our earnings release, along with management's rationale for referencing this non-GAAP measure.

Following our prepared remarks we're going to host a Q&A period during which we're going to limit each caller to two questions so that we can try to get to everyone by the end of the hour.

Now I'm going to turn the call over to Tim. Tim.

Tim Boyle – President and Chief Executive Officer
Thank you, Peter. I just want to ask for some indulgence today. It looks like everybody in the company here has a cold including myself, so it's going around. If I pause from time to time, I apologize.

We're pleased to report better than expected third quarter and year-to-date results, and to essentially reiterate our full-year earnings outlook which now incorporates anticipated full-year costs of Project Connect. We believe our sustained performance illustrates the strength of our team and of the global multi-brand, multi-talent business model that we've built, utilizing our powerful balance sheet to make investments that enable us to adapt as the major markets evolve.

The structural shifts that continue to alter the US wholesale landscape are a meaningful headwind that drove a low double-digit decline in our US wholesale sales for the first quarter and a high single-digit decline through the first nine months. Nearly half of that year-to-date decline is the direct result of an expected timing shift of US wholesale deliveries from September into October with the vast majority of the remainder reflecting wholesale customers' bankruptcies and store closures. Adjusting for the timing shift, third quarter USA sales would have declined only 5% rather than the reported 12% decline. The US region would have been essentially flat compared with last year's third quarter.

As we anticipated at the beginning of the year our US direct-to-consumer business has helped to offset some of the wholesale decline posting low double-digit sales growth in the quarter and high single-digit growth year-to-date. Third quarter US DTC growth was a combination of comp store growth, contribution from new stores and high single-digit growth in e-commerce.

Despite the disruptive dynamics in the US wholesale market and setting aside costs associated with Project Connect, we improved our operating margin through the first nine months by 20 basis points. And, our 2017 outlook, also excluding Project Connect costs, anticipates a 10 basis point improvement.

As you look across the rest of our business beyond the US wholesale channel, you'll see that we generated sales growth and improved profitability in every other region in the third quarter, and that the same holds true on the year-to-date basis with the exception of Korea where our year-to-date sales are essentially equal to last year. Our EMEA region has led the way with constant currency sales up 15% in the quarter and 14% year-to-date.

Our European wholesale and direct-to-consumer businesses posted a high-teens constant currency growth rate for the quarter and year-to-date led by broad-based Columbia brand growth across product categories, customers and countries as well as the 30% growth from the Sorel brand. In addition, the independent distributor portion of our EMEA region contributed low double-digit growth in the third quarter and is up high single-digits year-to-date on the continued improvement in the Russian market.

More importantly, after achieving break-even profitability in 2016, we now expect our European wholesale and direct-to-consumer businesses to be profitable in 2017. Our team in Europe has done an outstanding job over the past three years improving the profitability of our business there. We have plenty of untapped market potential and the existing infrastructure to drive continued growth and expand profitability in the years ahead in that very important market.

In June we asked the architect of our European turnaround, Franco Fogliato, to relocate to Portland to support the increased focus on our US and Canadian markets, and promoted Matthew Schegg to serve as European GM to continue driving our momentum in Europe.

Our Latin America and Asia-Pacific region posted high single-digit growth in the quarter and is up mid-single digits year-to-date. Sales to LAAP distributors grew more than 30% in the quarter benefiting from a favorable shift in the timing of shipments and increased advance fall season orders. Sales to LAAP distributors are also up by more than 30% year-to-date.

Our China joint venture posted high single-digit growth on the strength of its digital wholesale and owned e-commerce channels while Korea produced mid-teens growth by adding new wholesale customers to help accelerate its continued inventory reduction efforts. In Japan a mid-single digit constant currency increase translated into a low single-digit decline in US dollars. To complete this quick trip around the globe, Canada contributed high single-digit growth driven by the Columbia and Sorel brands, largely due to a favorable timing shift in wholesale shipments.

Third quarter and year-to-date gross margins improved to 46.7%. On the spending front, excluding the strategic $8.6 million year-to-date expenses of Project Connect, diligent expense management by our global team held year-to-date SG&A growth in line with the rate of year-to-date sales growth. Our balance sheet remains extremely strong with $430 million in cash and zero long-term debt.

Clearly we have reason to be confident in our portfolio of brands, our global, multi-brand, multi-channel business model, our strong balance sheet and in our ability to prioritize and allocate capital towards profitable growth opportunities. Our confidence and that of our board is also reflected in the 6% dividend increase that we announced today, marking our fifth consecutive year of dividend increases and the tenth increase since we introduced the dividend 12 years ago.

Looking at how each of our brands are positioned for the fourth quarter, we continue to believe that the Columbia brand is gaining US wholesale market share in this challenging environment and that wholesale channel inventories are generally healthy as we await the arrival of seasonal weather and the holiday shopping season.

Over the past year our Columbia brand team has installed more than 150 new Columbia shop-in-shops and elevated brand presentations at key partners' stores around the world with plans to nearly double that number by the end of 2017. Our investment in this roll-out reflects our commitment to enhance the consumer's experience within our global wholesale channels and also speaks to the confidence that our customers have in us as one of their most reliable partners and in the Columbia brand as one of their most consistent performers.

The Columbia brand's Tested Tough brand marketing platform continues to drive a unified global message about enabling consumers to enjoy the outdoors longer. The second year of our successful Directors of Toughness program concludes this month after driving hundreds of millions of consumer impressions on social media channels.

This fall we'll launch a new seasonal campaign titled Columbia Warm that sits on top of our existing Tested Tough brand platform that will expose consumers to a consistent global story across TV, digital, print, out-of-home, email and social, and will include new micro campaigns across digital channels that will be updated regularly to maintain an always-on marketing presence. This effort kicked off in September with a campaign focused on our partnership and outfitting deal with the UK National Parks system and was followed by a content marketing partnership featuring actor and celebrity Zac Efron and his brother Dylan that has already driven over 400 million impressions.

For the full year we expect the Columbia brand to contribute low single-digit global growth with increases in our US DTC channel in every international region offsetting our anticipated decline in US wholesale.

Our Sorel brand team is very excited about what they have lined up for this fall season. Next week Sorel's 4,000 pair limited boot collaboration with renowned Paris-based luxury design house Chloé launches at 14 of Chloé's premium global wholesale partners including Nordstroms, Galeries Lafayette, Barneys and Holt Renfrew. The boot, which will retail for more than $500 will also be available at Chloé retail stores in major markets around the world and on chloe.com.

This collaboration is a perfect fit with Sorel's fashion forward female consumers and is already garnering traction with global fashion press. Sorel's complete new fall 2017 line is in stores and is being supported by the brand's new Defy marketing campaign that reinforces Sorel's position as the most fashionable brand in outdoor and the most outdoor brand in fashion.

The campaign is anchored by street-level window executions across New York at some of Sorel's most visible and influential partner stores as well as by extensive social media campaign that features eight up-and-coming fashion influencers who are helping to extend our communications around Sorel's fall product line. We expect Sorel will contribute high single-digit growth for the full year led by the US, Europe and Canada.

At prAna during the third quarter we promoted Russ Hopcus, Columbia's former SVP of North American Sales, to prAna Brand President. I'm confident in his and his team's ability to magnify prAna's message of sustainability and healthy, active, free-spirited lifestyle to drive growth. Early fall sell-through at key wholesale customers has been strong, led by yoga and swim categories. Our updated 2017 outlook anticipates low single-digit growth for prAna as it overcomes headwinds caused by the US wholesale market disruptions.

At Mountain Hardwear new brand president, Joe Vernachio, continues to build out the new product team that is working to create a compelling, high-performance product lineup. Mountain Hardwear's innovative StretchDown products are performing well at retail. Our full-year outlook anticipates a low single-digit percentage sales decline from Mountain Hardwear.

Our updated consolidated 2017 outlook anticipates gross margins up about 20 basis points from 2016 and that inventory levels will be consistent with anticipated full-year 2017 net sales growth. We also anticipate about 80 basis of SG&A deleverage which includes 60 basis points of deleverage related to the anticipated full-year costs of Project Connect.

In summary, we're pleased with our solid year-to-date performance and how we have positioned ourselves for the remainder of 2017. It's from this position of strength and confidence that we are moving steadily forward on Project Connect, which I described during our July conference call.

As a quick refresher, and for those who are new to this story, Project Connect is a comprehensive assessment of our business model, an identification of strategic, organizational and operational initiatives to accelerate execution against our strategic plan and to drive profitable growth. We launched the realignment of our organization around a brand-led, consumer-first philosophy.

Project Connect teams have been identifying initiatives to accelerate our performance against the company's four strategic priorities, which are: Drive brand awareness in sales growth in our wholesale and direct-to-consumer channels through increased focused demand creation investment; Enhance consumer experience and digital capabilities across all channels; Expand and improve global direct-to-consumer channels with supporting processes and systems; Invest in our people and optimize our organization across our portfolio of brands.

To give you a sense of its comprehensive scope, Project Connect includes initiatives to drive revenue, capture costs of sales efficiencies, generate SG&A savings and improve our marketing effectiveness. A few of these initiatives have shorter lead times and will be among the first to be implemented. Examples would be initiatives in the area of e-commerce optimization, indirect procurement, marketing effectiveness and refining the promotional cadence in our DTC channel.

Other initiatives generally entail longer lead times, particularly those pertaining to product creation such as assortment optimization and intensifying our emphasis on designing products with the features and functions that consumers value most. Meaning that some of these may take us until 2020 or beyond to fully implement and realize their benefits.

As we move forward with implementations our intent is to redirect a significant portion of any realized, tangible benefits towards incremental demand creation behind each of our brands in order to drive growth. We will also invest in other initiatives that contribute to profitable sales growth, gross margin expansion and SG&A efficiency and that enhance our strategic, global operational capabilities.

We plan to incorporate those initial anticipated benefits and resource allocations in our 2018 financial outlook that we will share in early February in conjunction with our fourth quarter and full-year financial results. For now, I want to reinforce how committed we are to Project Connect and how confident we are that there are significant opportunities for us to transform our business, increase our growth driving demand creation investments, expand our operational capabilities and further improve our profitability.

Before we move to your questions I want to provide a little color about what we're seeing as we look into the first half of 2018. In September we wrapped up our spring advance order taking process with our global wholesale partners. Although we no longer report specific backlog figures and are not prepared to provide a full outlook for 2018 I want to share that based on the visibility that we have today we're optimistic that we will continue to generate global growth and that our US wholesale business will return to growth in the first half of 2018.

We believe that the combination of our global, multi-brand, multi-channel business, our sound strategic plan and our teammates around the world form a solid foundation that will enable us to grow, expand our profitability and increase our total return to shareholders in the years ahead. You can find out more detail on our Q3 and year-to-date results and our updated 2017 outlook and Jim's CFO commentary available on our website.

That concludes my prepared remarks. We welcome your questions for the remainder of the hour.

Operator
Thank you. Ladies and gentlemen at this time we'll be conducting a question and answer session. [Operator instructions]. One moment while we poll for questions. Our first question comes from the line Bob Drbul with Guggenheim Securities. Please proceed with your question.

Q: Hi, Tim. Good afternoon. I guess the first question I have is when you talk about the shift or the recovery or return to growth for the US business, US wholesale for the spring period, can you just elaborate what's changing? Is it just that you're lapping everything and either reception on the product side that you're seeing with the return to growth in US wholesale?

Tim Boyle – President and Chief Executive Officer
Certainly, we're one of the few people in the outdoor business that has a strong presence in the fishing business. So, I would suggest with our sportswear business it is quite strong in spring, led really by our PFG product. It's unique and we don't have a lot of competition in that area.

Secondarily, our footwear business is really now gaining traction and the expectation is from percentage point of growth that our products will be probably led by footwear for the spring. And then, there's just increasing confidence in our global approach, increased improvement in our European business and of course in Russia where the business there has improved significantly.

Q: Tim, I was just wondering if you could also spend some time on your DTC business, I'd be interested just to hear your e-commerce business versus your wholesale e-commerce efforts and how that's materializing for you on a global basis.

Tim Boyle – President and Chief Executive Officer
Certainly, well, as we know, there's been significant disruption in the US brick-and-mortar wholesale business and certainly some of that, if not the majority, is due to the impact of e-commerce businesses both on the wholesale basis as well as our existing good customers who have significant investments in businesses and in e-com selling our products and others across the internet.

So, as we've said for years, we really consider ourselves to be a wholesale business. Our e-com platform for all of our brands are really designed first and foremost to have visitors to the site receive a terrific marketing message about the brand and hopefully they'll buy the product, if not at Columbia.com then somewhere else. I think we're finding that that's certainly happening.

We will continue to make investments in this really important method to communicate with consumers but with the goal of really providing marketing messages so the consumers can find our products and learn about them and hopefully buy them somewhere else.

Q: Great, Tim. Thanks very much.

Operator

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

Q: Hi, good afternoon, thanks for taking my question. With regards to the strengths in Europe, a few companies now have reported some very strong growth trends. I wondered if there was a way to break out how much is comp growth in the region versus incremental growth and new door opportunities that Columbia has had year over year.

Tim Boyle – President and Chief Executive Officer
Certainly, embarrassingly, the company had an enormous European business, call it six or seven years ago, which we did not nourish and thus had problems with. And I would suggest that our business today is with our existing and former customers that are now coming back to the brand as we improved our connection with those customers and our products, and frankly our team members in Europe. We really decided to focus on the biggest customers there, ones that can provide us with solid performance [audio disruption] over the long term. So, there's really no new customers for all intents and purposes. This is all a rekindling of relationships and business that the company had in the past.

Jim Swanson – Senior Vice President and Chief Financial Officer
Kate, I'd add by and large the sales growth we're seeing in the Europe Direct businesses, essentially the wholesale business, probably 80+% of the growth is far less from a B2C standpoint, although we're seeing nice growth from our e-commerce business in that part of the world.

Q: Okay, great, that's helpful. And then just one unrelated question, Tim, you mentioned that you thought Columbia was gaining share in the US wholesale market. Are there any particular categories in which you're seeing it or is it across the board?

Tim Boyle – President and Chief Executive Officer
Well, I think we're finding it in outerwear and certainly in footwear where we believe that's probably the biggest product opportunity for the company. So, I would say those two primarily. And we have solid sportswear business. Again, as I mentioned earlier, we have a unique position with our PFG product where we don't have a significant competitor.

Q: Thank you.

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

Q: Thanks. Good afternoon, everyone. Jim, I was hoping you could help us maybe quantify how we should we think about the benefits from Project Connect. I know the later initiatives will be more difficult to quantify, but maybe help us think about where you see the most impact from these initiatives coming to life.

Jim Swanson – Senior Vice President and Chief Financial Officer
Tim shared in the prepared remarks as we've really looked at the project and as you're aware, we're not ready to provide specific guidance as it relates to 2018. That said, as we looked at the cadence and where we'd anticipate seeing that benefit, certainly there's some shorter lead time-related initiatives that are in there. These are the likes of indirect procurement, some of the work that we're doing from an e-commerce optimization standpoint and really driving more traffic and conversion from the e-com standpoint. And then of course there's longer lead time

initiatives as well. Those longer lead times are the ones that really being in the product creation space where we have more lead time associated with the product creation cycle itself where we can roll that into 2019 and 2020.

And so, we'd anticipate beginning to see some of the benefit flow through in 2018. But as Tim described, we would intend to reinvest back into the business, demand creation being a priority. And we'd anticipate seeing more of a benefit, particularly when we get out to some of those longer range initiatives in 2019 and 2020.

Q: Great, that's great. Thank you. Then my follow-up question is really to the wholesale market in North America. Clearly there's disruption that's still present and the potential for further disruption as retailers, large and small, continue to teeter on the brink. Can you talk about how you're positioned for that within the sporting goods industry and how you view that channel as either a source of growth or one of caution as you approach 2018?

Tim Boyle – President and Chief Executive Officer
Not to jinx it, historically the company has done an exceptional job of extending credit and we do a diligent job of reviewing our customers' financial positions before we extend credit. So, from that standpoint, I think that we recognize that we don't need to do anything crazy to hit a number. We've built the guidance that you've seen today based on what we think will happen during the balance of 2017. There's likely to be, as you said, continued disruption. We believe that there's strong opportunities for growth with our brands with the survivors, and there will be many. And we're aligned closely with those.

I just wanted to maybe reiterate what Jim had said regarding Project Connect. This is a very strong, healthy company, and our focus on Project Connect is how we eliminate the legacy activities that have not been enhancing our growth. So, we're about making sure that we're going to be here for the long term and continue to improve our performance and we think that there's lots and lots of opportunity for us in Project Connect.

Q: Thanks, guys. Good luck through the holiday season.

Operator
Thank you. Our next question comes from the line of Susan Anderson with FBR Capital Markets. Please proceed with your question.

Q: Good evening. Thanks for taking my question and nice job on the quarter, again. I wanted to maybe begin a little bit on the Columbia Sportswear product, and if you could talk a little bit about where the penetration is of the brand versus outerwear now and what's the opportunity there. How much more growth could there be on the sportswear side of things?

Tim Boyle – President and Chief Executive Officer
I want to make sure I heard your question correctly. You want to know which categories are strongest and where there's opportunity for growth.

Q: No, the sportswear within the Columbia brand seems to have grown at least in terms of shelf space somewhat within sporting goods. Where do you think the opportunity there is for continued penetration of sportswear within the Columbia brand?

Tim Boyle – President and Chief Executive Officer
Well, maybe I'll ask Jim to jump in here and give us some idea about approximate size of these categories but frankly, most of US consumers would think about us as an outerwear company. And outerwear in the US typically obviously is a third and fourth quarter, somewhat first quarter business, but really weather-dependent. The company has been very focused on both the footwear business, the non-winter footwear business, and the

sportswear business because the opportunities there are significant, both in sporting goods and frankly in the strong remaining department store businesses where consumers typically shop for sportswear.

I think there's lots of opportunity for us there. If I look out five years, I think our fastest growing and largest product category, if we do everything right, will likely be footwear, but we're going to be focused on growing all those businesses.

Jim Swanson – Senior Vice President and Chief Financial Officer
Susan, maybe just to follow on to Tim's comment, there's the composition of business from a categorical standpoint. The footwear business represents just over 20%, between 20% and 25% of the business and the balance is really pretty equally split between the outerwear and the sportswear categories.

Q: That's really helpful. And then just as one follow-up on Mountain Hardwear, it looks like the trend line continues to improve there. How should we think about it for next year? Are you guys feeling good now about where the product is at? Should we think about that returning to growth at some point?

Tim Boyle – President and Chief Executive Officer
The most important change in my opinion at Mountain Hardwear is the management team that we have present there today. So, the categories where there's been the most significant strength have been outerwear and equipment, and those are a bit longer lead times in terms of developing product. So, while we expect to improve in 2018, I don't think we're going to see the significant improvement that the team is quite capable of until 2019.

Q: Great, thanks, you, guys. Good luck next quarter.

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

Q: Thanks, good afternoon, everyone. I wanted to ask about US wholesale where you talked about exit timing shift, the business being down mid-single digits. Is that in line with what sell-through is in US wholesale? Is it also running down around mid-single digits or at what pace do you think wholesale sell-through is running at in the US?

Tim Boyle – President and Chief Executive Officer
Well, as you know, we monitor a significant amount of our wholesale partners' sell-throughs and today we are running about where they were last year, slightly ahead in some categories, but generally in the neighborhood where they were last year.

Q: So, generally flattish trend. Do you think any of that is a function of weather or is that sort of your assumption for how the run rate could be for fourth quarter?

Tim Boyle – President and Chief Executive Officer
Most of the inventory that's in our stores is weather-sensitive merchandise in preparation for the fall-winter season. So, that merchandise is selling as well as it did last year at this time and so our expectations are the guns are loaded. I think the channel is relatively clean. I don't think there's a lot of inventory hanging around from prior periods. So, I think we're going to be in a good position when the snow flies.

Q: Okay, great. And then just I'm curious if you can give us some insight into given the retailer bankruptcies that you've endured over the last several quarters, what your playbook is for navigating this choppy landscape. In other words, how you approach a partner that seems to be of fading, economic health and just sort of protecting your interest and protecting the inventory you might have normally thought to sell into that partner. Just any perspective you can give us on how you approach that because it seems like there's more of that to come over the next three to five years.

Tim Boyle – President and Chief Executive Officer
Well, certainly. As I said, not meaning to jinx anything, we've done an exceptional job, I credit our credit department for extending credit. It's a big part of the business. And so, we've had to go through periods when we've had close friends in the business that have had financial reversals and those are the toughest discussions that we have. But frankly, we're committed to providing our investors with solid returns really regardless of the economic conditions that exist.

So, typically, if we have a customer that has a financial issue we will reduce the credit limit and then move towards some guarantee from a financial institution or cash in advance or in some way offer them the help that we can without really putting our investors at risk.

Q: Okay, great. Thanks very much.

Operator
Thank you. Our next question comes from the line of Jonathan Komp with Robert W. Baird. Please proceed with your question.

Q: Hi, thank you. First question I just wanted to ask, I know the quarter came in, it sounded certainly better than you had projected as of Q2. I just wanted to reconcile, I know you essentially reiterated the full-year outlook. So, if you could just reconcile those two pieces and were there any shifts from Q3 to Q4, if you could just give more color there.

Jim Swanson – Senior Vice President and Chief Financial Officer
Jonathan, just to touch on that, in terms of third quarter results, the top line we came in, call it $10 million better than where we'd anticipated. But when we break down really where we saw that revenue upside, it was by and large with our wholesale businesses in Canada, and I believe Europe and China is really getting out ahead of some the shipments with the fall '17 season. So, really much more a function of top line and that more or less fell to the bottom line where you see the beat [ph] relative to where we had anticipated earnings coming in on the quarter.

So, with those results in mind, and with a lot of the year ahead us here, we've retained the outlook that we've provided in July. Of course we've updated that outlook to include the impact of Project Connect.

Q: Okay, great. Just following up on the Korea market and the Russia market, Korea it's not entirely clear if the improvement you saw there is sustainable. But, I if could just ask about those two markets combined kind of the outlook and the sustainability of better trends for each of those.

Tim Boyle – President and Chief Executive Officer
Sure, they're actually quite distinct. The Korean market is a company subsidiary and so we have more control there. The market for outdoor products in that area has just really been significantly diminished. We spent really the last several years right-sizing our inventory positions. I think we're close there. We still have some work to do, but I believe that we have the right team in place there to manage us back into growth. I would consider this to be a trough in Korea.

And in Russia, our distributor there is one of the strongest businesses of any type. We've had a long relationship with them, over 25 years. And, we consider them to be exceptional business people. They're in a position where they're coming out of the ruble decline, the ruble strengthened. Their business has resumed growth. They're a survivor in that market and we'll be flourishing because of the lack of competition there. So, it's really a tale of two issues as it relates to the performance of the Columbia brand there.

I might remind those listening that the Columbia brand, I think, is in the number three or four position behind either Nike, Audi, Reebok—neck and neck with Reebok in terms of awareness to the Russian consumer. And, it's been a great market for us a long time, and we expect to continue to grow there.

Q: Great, thank you.

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

Q: Good afternoon, congratulations on your forecasted return to profitability in the Europe Direct business; it's great to see. Just curious how we should think about restoring that business to the appropriate margin level long term. Is there further improvement? Is it just all about top line growth from here or is it potentially part of Project Connect looking at the cost structure associated with that segment? Thanks.

Tim Boyle – President and Chief Executive Officer
Thanks. I think we actually have our costs as much in line as we can in Europe. It's really about top line. Of course we'll have some tailwinds as we get currency back to a position where it was, call it, several years ago. It's very significantly down, the US dollar has strengthened against the euro. In fact, one of our issues in Europe was that we had overbuilt the infrastructure there for the size of what the business ultimately became. So, as the business continues to grow we will not have to add significant infrastructure there. There should be significant profitability from that business as we continue to get the top line up.

Q: Great, thanks. Just to follow up on your positive footwear commentary, you saw mid-teens growth in the category going back to 2015 and then '16 and '17 seems like it got caught up, the same with apparel in terms of the retail headwinds. It sounds like from your commentary that you're thinking that can re-accelerate. So, the question is what needs to happen to get there. What are some of the catalysts and growth opportunities you're looking at to make that the fastest growing category for you across Sorel and Columbia? Thanks.

Tim Boyle – President and Chief Executive Officer
Certainly, if you look at feet historically the business has been so heavily winter-oriented that when we have a warm winter it impacts our business significantly because of the expensive nature of those products and the seasonality. So, we've been very focused on de-winterizing, especially the Sorel brand, but importantly the Columbia brand as well, and really much of our success for spring 2018 is a function of our PFG footwear, which just continues to perform very, very well. Over the next several years, we'll be really focusing on continuing to de-winterize the footwear business, and to get products that are in demand regardless of the weather.

Q: Thanks and good luck.

Operator
Thank you. Our next question comes from the line of Jay Sole with Morgan Stanley. Please proceed with your question.

Q: Great, thank you. My question is just on the commentary around returning to growth in the US in the first half of fiscal ’18. By calling it first half, does that imply you see it more of a second quarter type situation or is it a first quarter situation?

Jim Swanson – Senior Vice President and Chief Financial Officer
We have not broken down—we’ve taken the order book, effectively, in terms of the comments that Tim’s made. And based upon the order that we’ve seen for the spring ’18 season, it’s given us confidence that we’ll see growth in the US wholesale business. The actual flow between spring and fall can’t say one direction or another in terms of where we’d see the bulk of that, but with growth we’ll anticipate some benefit there.

Tim Boyle – President and Chief Executive Officer
I would expect, typically the second quarter is the company’s lowest revenue quarter of the year. So, we haven’t really talked much about ’18 in terms of the split by quarter, but certainly it’s really going to be spring product. I would doubt that there’d be much winter product in the next first half of the year.

Q: Okay. And then maybe just on, with retailers trying to buy closer to need, what percentage of the business do you think you have visibility into for that first half of ’18, for the total amount of sales you expect to do in the first half of ’18 at this point here in October?

Tim Boyle – President and Chief Executive Officer
Well, we have a very high percentage of our order book, and so we have significant confidence in terms of how the order book will play out. So, we’re confident.

Q: Maybe we can transition, you’ve been with the Manchester United deal for probably over a year now. Can you just talk about how that partnership has worked out? Has it made you more interested in creating more collaborations with other teams or other types of—whether pro or college or anything in that nature of other sports?

Tim Boyle – President and Chief Executive Officer
Certainly, well, ManU was successful for us and we didn’t get as much of an uptake globally as we had hoped, but it was still considered to be a very successful launch. It really exposed us to consumers, especially in Europe that didn’t know much about the brand.

As it relates to future projects, we’re going to be talking about our collaboration with Disney on *Star Wars*, and we’ll have some more information on that in the near future. But, we have a number of collaborations not only sports teams but things like Disney and the Zac Efron collaboration and partnership was really a positive. So, we’re trying to differentiate ourselves from the big athletic brands that heavily rely on athletes to promote their products. In the outdoor business, consumers typically are more reticent to look just like an athlete but we certainly get the brand awareness from these unusual connections with the popular brands and personalities.

Q: Thank you so much.

Operator
Thank you. Our next question comes from the line of Chris Svezia with Wedbush. Please proceed with your question.

Q: Thank you, good afternoon, everyone. Thanks for taking my questions. I guess, Jim, just a question for you. When I look at the guidance for the remainder of the year, in particular I think for Sorel and for Mountain Hardwear, it looks like the guidance for the year has changed slightly, a little bit higher. But, you’re still maintaining 3%. Is that just—they're too small, really, to move the needle? Are we just talking about rounding errors? How does FX play into it? Considering, I think in the third quarter FX was pretty neutral, as you go into fourth quarter I think it gets a little bit more favorable on the year-over-year comparison. How do we think about that?

Jim Swanson – Senior Vice President and Chief Financial Officer
There's obviously some puts and takes in terms of the some adjustments you're seeing in the revenue plan. So, I think that's going to be smaller adjustments to each of those brands and not having a meaningful impact when you look at it at a consolidated level in terms of the 3% that we've maintained in the overall outlook. And then as it relates to the currency side of the equation, we continue to monitor where we are from a currency standpoint. I have that reflected in our outlook as well. So, really no updates there in terms of impact to the year from a translation perspective.

Q: My other question is just on Project Connect, you have roughly $15 million to show in expenses related to getting it up and running. As we think forward, are there any additional expenses or one-off expenses that we should think about as we move forward? Or, is it just simply you start to get some incremental benefit from it and you take some of that benefit and you're investing it in something like demand creation? I'm just trying to think about how we think about this $15 million this year and how we should think about that going forward from a one-time expense run rate perspective.

Jim Swanson – Senior Vice President and Chief Financial Officer
The $15 million that we've incurred in 2017 was obviously some yet to come in the fourth quarter. It was made up of a combination of program-related costs and some discrete costs as well. As we get into 2018, and not providing a specific outlook today, we'd anticipate there's still a fair amount of runway ahead in terms of incurring additional discrete and program-related costs next year. And of course as we get visibility to that and we provide an outlook for 2018, we will separate those so that those are clear in terms of what we intend to incur.

And as part of that, we'll be looking at the benefit flow-through that we anticipate in 2018, building that into our outlook as well.

Q: Okay, thank you very much and all the best. Appreciate it.

Operator
Thank you. Our next question comes from the line of Rafe Jaroshik [ph] with Bank of America. Please proceed with your question.

Q: Hi, good afternoon. Thanks for taking my questions. Can you give a little more color about the key drivers to the high single-digit growth outlook for Sorel, and then maybe break out how much of that will be international versus the US?

Jim Swanson – Senior Vice President and Chief Financial Officer
So, if I'm looking at Sorel, I think the key growth drivers in here are effectively going to be the US wholesale business. You'll recall we saw a lot of that growth really in the spring season with the expansion of what we've done with the spring line with Sorel. And then the other major contributor in here being the growth that we're seeing in our European business. And so, it's really the combination of the growth on the US wholesale side coupled with our European Direct.

Q: Great. Just in terms of your US wholesale distribution, can you give some color on the relative size between the different channels, like department stores, sporting goods, specialty? And then, how do you expect that to change over time or do you think it'll be about the same?

Tim Boyle – President and Chief Executive Officer
Well, I don't think we've specifically given guidance as it relates to the channel mix in our wholesale business. But, I think over time it's very likely to have a much larger percentage of the wholesale e-com business, with our wholesale partners, whether they are pure play or retailers who have an increasingly important e-com business of their own.

Q: Great, thank you.

Operator
Thank you. There are no further questions at this time. I would like to turn the floor back to Tim for closing comments.

Tim Boyle – President and Chief Executive Officer
Alright, thank you very much for listening. We appreciate your time and efforts. We look forward to talking to you about our fourth quarter and plans for 2018 in February.