Kontoor Brands
Fourth Quarter 2024 Earnings
February 25, 2025

Presenters
Michael Karapetian - VP, Corporate Development, Strategy, and IR
Scott Baxter - President, CEO, and Chairman
Tom Waldron - COO
Joe Alkire - EVP and CFO

Q&A Participants
Ike Boruchow - Wells Fargo
Jim Duffy - Stifel
Brooke Roach - Goldman Sachs
Paul Kearney - Barclays
Mauricio Serna - UBS

Operator
Greetings and welcome to Kontoor Brands Q4 2024 Earnings Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. Should anyone require operator assistance during the conference, please press star, zero on your telephone keypad. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Michael Karapetian, VP, Corporate Development, Enterprise Strategy, and IR. Thank you. You may begin.

Michael Karapetian
Thank you, operator, and welcome to Kontoor Brands fourth quarter and fiscal year 2024 earnings conference call. Participants on today's call will make forward-looking statements. These statements are based on current expectations and are subject to uncertainties that could cause actual results to materially differ. These uncertainties are detailed in documents filed with the SEC. We urge you to read our risk factors, cautionary language, and other disclosures contained in those reports.

Amounts referred to on today's call will often be on an adjusted dollar basis, which we clearly define in the news release that was issued earlier this morning and is available on our website at kontoorbrands.com. Additionally, participants should note that comparability with prior periods is impacted by the previously disclosed out-of-period duty charge recorded in 2023. Accordingly, in our following comments, comparisons to 2023 gross margin, operating income, and EPS do not include the impact of the 2023 duty charge. Reconciliations of GAAP measures to adjusted amounts can be found in the supplemental financial tables included in today's news

release. These tables identify and quantify excluded items and provide management's view of why this information is useful to investors.

Unless otherwise noted, amounts referred to on this call will be in constant currency, which exclude the translation impact of changes in foreign currency exchange rates.

Joining me on today's call are Kontoor Brands President, Chief Executive Officer, and Chairman, Scott Baxter, and Chief Financial Officer, Joe Alkire. In addition, we'll be joined by Tom Waldron, Chief Operating Officer. Following our prepared remarks, we will open the call for questions. Scott?

Scott Baxter
Thanks, Mike, and thank you to everybody for joining us on today's call. 2024 was a banner year for Kontoor. We connected with more consumers in more categories, accelerated brand investments to drive market share gains, and initiated our Project Jeanius transformation. As a result, we delivered on our pivot to growth, expanded margins, and improved our capital allocation optionality while returning significant cash to shareholders.

In what remains an uncertain environment, we are operating from a position of strength in executing at a high level. Let's discuss highlights from the year. As we reported last week, fourth quarter revenue and profitability were better than expected. The investments we are making continue to drive competitive separation in the marketplace. While the environment has been uneven, consumers are choosing our brands. We see this in the strength of our own digital business, which grew 11% for the year, including 16% growth in the fourth quarter. And this is leading to stronger partnerships in the wholesale channel.

In 2025, we are actively exploring shop-in-shops in key retailers that will elevate our presence and provide a greater experience for our consumers. We also made progress diversifying our business into new categories. Non-denim bottoms, tops, and t-shirts grew mid-single digits in 2024 to approximately one-third of global revenue. Within that, our outdoor business grew at mid-teens rate, reflecting the investments we are making in product development and design. We expect to build on this momentum in '25 with another year of growth.

Moving down the P&L, one of the hallmarks of our organization is the strong focus on operational discipline to drive shareholder returns, and 2024 was no exception. We significantly expanded margins and drove strong operating income growth. As a result, we generated approximately $370 million in cash from operations, allowing us to return almost $200 million to shareholders through our dividend and share repurchase program and further strengthen our balance sheet through voluntary debt repayments.

Moving to Project Jeanius, a year ago we outlined how Project Jeanius would enhance our organization, create considerable capacity for investment, and establish a world-class multi-brand platform. With our ERP implementation complete, team structure in place, and

disruption from the pandemic fading, the timing was right to pull together the strategic initiatives from around the organization into one comprehensive project. And we progressed through the year. We raised our expected savings target to $100 million with benefits starting to flow through our P&L in 2025. Today, I am pleased to share we have moved firmly into the execution phase and now see upside to our $100 million of combined gross margin and SG&A savings.

Joe will unpack the specifics, but there are three areas of improvement we have clear line of sight to achieving. First, our global sourcing transformation will optimize our business for expanded category growth, drive greater efficiency in our sourced vendor network, and enhance our planning organization. Second, back-end efficiencies will result in an improved shared platform that can scale with the addition of Helly Hansen while standing up enhanced data capabilities. And third, commercial optimization will drive improved product development capabilities, increased speed to market, and greater responsiveness to meet evolving customer demands. 2025 will be an important year for Project Jeanius, and we have the team in place to drive significant value for our organization. The work we are doing will transform Kontoor into a best-in-class, global, multi-brand platform while improving our overall financial profile.

Before I turn it over to Tom, a few closing remarks - after successfully completing our first two horizons as a public company, we are entering a new phase of growth for Kontoor. While the environment remains dynamic, we have proven the resiliency to navigate the current environment. We have been through multiple cycles and have navigated disruption throughout our careers, including the particularly challenging period of the past five years. Supported by our exceptional leadership team, the benefits of Project Jeanius, and now the upcoming addition of the iconic Helly Hansen brand, I am highly confident we are on the right path to drive strong value creation for all shareholders. Tom?

Tom Waldron
Thanks, Scott, and thanks to everyone joining us today. 2024 marked one of Wrangler's most successful years in decades. We expanded market share, made lasting connections with our consumers, and invested in the brand to further diversify our product assortment to drive greater category and channel diversification. Wrangler is on an incredible trajectory, and we continue to take the brand to new heights.

One of the most successful initiatives in 2024 was our Return to National Broadcast. Bringing the Cowboy Spirit to Life, we introduced the brand's first global equity campaign in years - Good morning makes for better days. The Wrangler campaign showcased the power of music, community, and classic Wrangler style. This is our highest tested campaign ever and is a testament to the incredible talent at Wrangler and our ability to fuel the brand's continued momentum.

So how does this translate? According to Circana, in our core U.S. men's bottom business, Wrangler gained 130 basis points of market share in 2024. In the fourth quarter, this

accelerated to 220 basis points, making the 11th consecutive quarter of market share growth. It is clear the Wrangler brand is resonating with our consumers and reaching them in many areas they engage, particularly focused on sports, culture, and music.

Leaning into the intersection of country music and western culture, we continue to build momentum through our successful collaborations with Cody Johnson, one of the biggest country stars of his generation, and the highly anticipated collection of Grammy Award winning superstar Lainey Wilson launched as our single largest collaboration to date. I am excited to announce that we are following up with a second collection in the spring, including a broader expansion in EMEA and coincides with Lainey's European tour kickoff.

Further fueling momentum with Wrangler female, our newest female fit innovation Bespoke launched across D2C and specialty retail, exceeding our high expectations with many styles quickly selling out. Bespoke will continue to be growing product story in '25 as we look to scale this platform. Wrangler female grew 8% for the year and 19% in the fourth quarter.

And finally, Outdoor continues to be a major category for Wrangler. Outdoor has grown to more than $200 million, up 15% last year, and doubling from approximately $100 million five years ago. We expect Outdoor to post another year of growth in '25 and see room for the business to double again over time, fueled by investments in talent, product development, and design. Putting it together, Wrangler Global Revenue grew 9% in the fourth quarter, including 9% in the U.S., 9% growth in direct to consumer. We see tremendous opportunity on the horizon, and I am confident that our strategy has set Wrangler on a path for continued success.

Turning to Lee, 2024 marked a year of strategic planning and focus for Lee. We have strengthened the identity of the brand, launching a new creative vision. Let me remind you, this is work we did with the Wrangler brand five years ago, and we believe it was a catalyst to unlocking Wrangler's growth. We have now just completed this work for Lee. With clarity on Lee's brand identity, refined consumer targets, and new brand leaders with proven track record of success, we have built the foundation needed to improve the performance of the Lee brand, and we are committed to doing just that. In 2024, leaning into his legacy of innovation, Lee launched Lee X and MVP Heritage Denim in the fourth quarter. These new platforms combine the look and feel of authentic world-class denim with the comfort of performance pants. Both Lee X and MVP Heritage are off to an encouraging start and are poised to build momentum in 2025. They are also paving a path for new channels and distribution and new consumers.

For Lee Female, the brand gained market share for the 12th consecutive month in December across denim, non-denim, and seasonal products according to Circana. Our new lifestyle product categories including sets, dresses, skirts, and tops have been well received and provide a great opportunity to expand our wear occasions while creating brand loyalty with our younger consumers. Global revenue declined 5% in the fourth quarter. 2025 will continue to be a transitional year for Lee as we harmonize the brand's improved positioning, address challenges with mid-tier distribution, and scale new innovation platforms. We are confident we

have the right team in place and a new strategic playbook to build our way back to growth over time.

Our path forward is built on three pillars: product, distribution, and brand, all of which are rooted in meeting the needs of our refreshed consumer targets. We are building to grow growth using the central creative vision that stays true to the heritage and rich history that has cemented Lee's legacy as a global denim icon. Through data-driven insights, we are introducing brand storytelling that creates deeper connection with consumers, both longtime brand fans and new younger generation. We are launching a demand creation platform that will allow Lee to regain its place in the center of culture. We see early signs of success with Lee's brand health metrics that have meaningfully improved over the last six months. That said, this will not be linear. We must continue to create trend-right product, diversify distribution, and elevate marketing to fuel our go-forward strategy.

In early 2025, brand collaborations with Buck Mason and Paul Smith will paint a clear picture of how Lee is bringing iconic American Cool to life for consumers across the globe, and we will build momentum in the back half of the year with the launch of a brand equity campaign. I am excited about the important work we have done to recalibrate our path forward. The refined consumer segmentation choices, a sharpened focus on product innovation, and a stronger brand positioning will put the brand on its best footing in decades. We are on the right path to return the brand to growth, and I'm confident Lee's best days are ahead. Joe?

Joe Alkire
Thanks, Tom and thank you all for joining us today. We are pleased with our strong finish to the year, which came in above our outlook, driven by better-than-expected revenue growth, earnings, and cash flow. In what remains an uneven environment, we are operating from a position of strength and executing well. Our fourth quarter results put a capstone on what was a strong year for Kontoor Brands.

Global revenue increased 5%. Relative to our prior outlook, we saw stronger results in the U.S. and Asia, with Europe performing as anticipated. By brand, Wrangler global revenue increased 9%. Strength was broad-based with growth in every channel and geography, including 9% growth in both the U.S. and international, 9% growth in wholesale and D2C, 19% growth in Female, and 29% growth in Outdoor.

We were encouraged by the strength we saw in POS during the holiday season. Despite uneven performance month-to-month, as has been the case over the past year, we saw continued strength in overall sell-through performance at retail. October increased at a low single-digit rate, with November and December accelerating meaningfully to 8% growth on a combined basis. This was the strongest POS performance in over a year, reflecting the brand momentum discussed earlier.

Now turning to Lee, global revenue decreased 5%, U.S. revenue decreased 6%, driven by a decline in wholesale, partially offset by double-digit growth in D2C. Lee's performance was below our expectations as challenges in the mid-tier channel pressured wholesale revenue more than anticipated. Additionally, during the fourth quarter, Lee revenue was negatively impacted by approximately three percentage points from the exit from the club channel.

We are evolving Lee's go-to-market strategy in areas that are misaligned with the brand's strategy and consumer insights work. While these decisions may have a near-term impact on revenue, they will result in greater consistency and performance for both our wholesale partners and our own D2C channels long-term. Partially offsetting the decline in wholesale was an improvement in D2C, including strong double-digit growth in the fourth quarter, which we expect to continue in 2025. In the first quarter, Lee's digital business is up 7% quarter to date.

Lee international revenue decreased 4%, with declines in wholesale offsetting growth in D2C. In Europe, revenue declined 1%. Growth in D2C, including 17% growth in digital, was offset by declines in wholesale. Performance was generally consistent with expectations as the uneven macro environment continues to weigh on retailer behavior. In APAC, revenue decreased 4%. Performance was modestly better than we expected. Recall last quarter, we tempered our outlook for the region as a result of more challenging operating conditions.

We will continue to manage the business prudently in light of the environment. However, we are encouraged by the modest improvement in performance of the region over the past few months.

2025 will be a transition year for Lee as we work to set a stronger foundation for the brand and reposition it for growth and improved fundamentals. We are confident our consumer-driven strategy will strengthen the brand and expect the performance of the business to improve as we move through 2025.

Moving to the remainder of the P&L, adjusted gross margin expanded 160 basis points to 44.7%, driven by the benefits of lower input costs and mix. This was partially offset by the targeted pricing actions included in our plan. Adjusted SG&A expense was $211 million, up 5% compared to the prior year, driven by investments in demand creation and volume-related variable expenses. And adjusted earnings per share was $1.38, representing an increase of 2% compared to the prior year. Excluding the discrete tax benefit in the prior year, adjusted EPS increased 23%.

Now turning to the balance sheet, inventory decreased 22% to $390 million. We achieved our annual turnover target of approximately 3.5 times and our days on hand goal of approximately 100 days. While we anticipate inventory to grow in line with sales going forward, networking capital management, cash generation, and return on invested capital will remain a top priority.

We finished the year with net debt for long-term debt less cash of $406 million and $334 million of cash on hand. Our net leverage ratio or net debt divided by trailing 12-month adjusted EBITDA was 1.0 times, at the low end of our targeted range.

During the fourth quarter, we paused share repurchase activity in anticipation of our acquisition of Helly Hansen. We have $215 million remaining under our current authorization. Our board approved a regular quarterly cash dividend of $0.52 per share. And during 2024, we returned $198 million to shareholders through share repurchases and dividends.

Finally, on a trailing 12-month basis, our adjusted return on invested capital was 32%, representing an increase of 550 basis points compared to the prior year.

Before moving to our outlook, let me discuss two topics I know are top of mind, Project Jeanius and tariffs. Starting with Project Jeanius. when we launched our transformation program, the goal was to create investment capacity to drive accelerated growth, improve profitability, and returns on capital. As we've discussed, Project Jeanius will result in significant gross and operating margin expansion and allow for a step change in investment to fuel the next leg of our value creation journey. As Scott highlighted, we now see total run rate savings in excess of $100 million for the Jeanius program. In 2025, we anticipate a benefit of approximately $30 million before reinvestment. The first half of 2025 will primarily benefit from SG&A savings related to operational efficiencies and improvements with indirect procurement. The second half of the year will include the added savings from supply chain initiatives that will contribute to our gross margin expansion.

Unpacking this in more detail, we expect Project Jeanius to benefit full year gross margin by approximately 10 to 20 basis points. Savings will be primarily driven by optimizing our sourced versus internally manufactured product. We have performed a deep skew level analysis and expect these savings to ramp meaningfully starting in the second half of 2025 and into 2026. As a result, the majority of the supply chain related savings will occur in the second half of the year, most heavily weighted towards the fourth quarter.

SG&A will benefit by approximately $20 million in 2025. Savings will be generated primarily from indirect procurement and improved organizational design and other operational and go-to-market efficiencies. We plan to reinvest over half of these savings to support our 2025 growth initiatives, including incremental demand creation and brand equity campaigns, channel and geographic expansion, and product development and consumer insight capabilities. Net of reinvestment, we expect Project Jeanius to benefit 2025 operating income by $10 million to $15 million.

As we move into 2026, we expect Project Jeanius savings to mature to a full run rate in excess of $100 million, providing us with a higher level of investment capacity to further support accelerated growth, expand profitability, and returns on capital.

Moving to tariffs, approximately 25% of our expected 2025 U.S. production volume originates from Mexico. Our China exposure is immaterial as the sourcing we do from China is directly for China. While the situation remains fluid, we have evaluated a range of potential outcomes and have developed a robust set of scenarios and mitigating actions should tariffs prove to be more permanent. Should tariffs be implemented in March at the proposed 25% level on all imports from Mexico, the unmitigated impact to operating profit in 2025 is approximately $50 million. This assumes no mitigating actions, including transferring production within our global supply chain, pricing increases, changes to foreign currency, or other proactive mitigating cost actions.

We would expect the mitigated impact in 2025 to be below $50 million and would work to largely offset any potential impact of tariffs more fully in 2026. We have experienced supply chain shocks in the past, including cotton spikes, supply chain and ocean freight disruption, and inflation. While we are not immune to these events over a near-term window, we are confident we can largely offset the impact of tariffs within a 12 to 18-month period.

Now turning to our outlook, our outlook excludes the expected revenue, earnings, and cash flow contribution from Helly Hansen and any potential impact from tariffs as just discussed. Full-year revenue is expected to increase 1% to 3% and includes an approximate 1% headwind from the stronger U.S. dollar. Our outlook for 2025 also includes the impact of a 53rd week, which is not expected to meaningfully impact revenue on a full-year basis.

Our revenue outlook includes the following assumptions - first, we continue to plan the business conservatively and assume no meaningful improvement in retail inventory positions for the year. While inventory levels at retail remain suboptimal, the environment is uncertain, and our retail partners remain in a conservative posture with regard to inventory management. This is consistent with our assumption in 2024. Second, relative to our expectations 120 days ago, our outlook embeds an approximate 100 basis point incremental headwind from foreign currency. This will have an equal impact on first and second half revenue growth. Third, the impact of Lee's evolving strategy and distribution footprint and the amount and timing of category expansions, distribution gains, and new programs for both brands has rebalanced revenue growth to be more equally weighted between the first and second halves.

And finally, after an encouraging start to the year, POS trends have softened over the last four to six weeks. January POS increased 4%, and we gained approximately 100 basis points of market share. February POS has declined at a low single-digit rate as a result of weather disruption and more subdued consumer spending as a result of macro uncertainty. Based on the visibility we have, we believe the recent slowdown in February POS is across brands and categories in our largest points of distribution and not specific to Wrangler and Lee. As I mentioned earlier, we have seen month-to-month variability over the last year and are planning the business prudently in light of recent trends.

For the first half of 2025, we expect low single-digit revenue growth, including the approximate 100 basis point incremental impact from foreign currency and the factors I just discussed. For

the first quarter, we expect revenue of approximately $625 million. Our first quarter outlook reflects quarter-to-date trends as well as the impact of seasonal programs and distribution expansion that are more heavily weighted to the second quarter.

For the full year, the low end of our revenue outlook assumes a low single-digit decline in POS for the balance of the year based on the softness we have experienced in February. The high end of our revenue outlook assumes POS trends that are more consistent with the performance we have experienced over the last 6 to 12 months. While the composition and phasing of our revenue plan for 2025 has evolved differently, there is no change to our growth outlook for 2025 on a constant currency basis relative to 120 days ago. More specifically, stronger FX headwinds and softer POS trends to start the year have been offset by greater-than-expected new distribution and category expansion primarily in the Wrangler brand.

Moving to gross margin, we expect adjusted gross margin of 45.3% to 45.5%. Our outlook represents an increase of approximately 20 to 40 basis points compared to adjusted gross margin of 45.1% in 2024. We have a high degree of confidence in our ability to continue to expand gross margin supported by Project Jeanius and the benefits of structural mix, partially offset by product cost inflation. Gross margin is expected to be weighted to the second half of the year, driven by the scaling benefits of Project Jeanius. We expect first half gross margin to expand approximately 10 to 20 basis points compared to prior year. For the first quarter, we expect gross margin of 46% for an increase of approximately 30 basis points compared to prior year.

SG&A is expected to increase at a low single-digit rate on an adjusted basis. We expect to make investments in areas such as demand creation, product development, and D2C and international expansion. This will be partially offset by the benefits of Project Jeanius and prudent discretionary spending. EPS is expected to be in the range of $5.20 to $5.30, representing an increase of 6% to 8%.

Full-year EPS does not include the benefit of share repurchases as a result of the pending acquisition of Helly Hansen. Our outlook also does not yet reflect the expected revenue, earnings, and cash flow contribution from Helly. Assuming a closing during the second quarter of 2025, we anticipate approximately $0.15 of accretion to the full-year 2025 adjusted earnings per share. This outlook does not include any benefit from potential synergies.

We expect first half EPS growth to be consistent with our full-year 2025 outlook. We expect first quarter EPS of approximately $1.16. Finally, we expect another year of strong cash generation. Cash from operations is anticipated to exceed $300 million, reflecting the cash-generative nature of our business. Our outlook does not include the contribution from Helly Hansen or the meaningful networking capital opportunity we discussed last week.

Before opening it up for questions, I'd like to reiterate the confidence we have in our ability to deliver our 2025 objectives. We have multiple paths to drive increasing revenue and operating

earnings growth. The benefits of strong fundamentals, Project Jeanius, and the addition of Helly Hansen are a powerful combination. While the environment remains dynamic, we have a strong operating model that has proven resilient regardless of market conditions. I am highly confident in the strength of our team and the power of our enhanced TSR model and our ability to drive best-in-class returns in the years ahead.

This concludes our prepared remarks, and I'll now turn the call back to the operator.

Operator
Thank you. We will now be conducting a question and answer session. If you would like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up handset before pressing the star keys. One moment please while we poll for questions.

The first question is from Ike Boruchow from Wells Fargo. Please go ahead.

Ike Boruchow
Hey. Good morning, everyone. Thanks for taking the question. A couple of questions on my end - the first ones I wanted to ask is just a little bit more detail on Lee. The D2C up I think around double digits, wholesale down around double digits. Just unpack that a bit and how that flows through the year based on your guide. And then, Joe, on the gross margin, I just want to make sure I heard you right that gross is up 30 in the first quarter and up 10 to 20 for the first half. If I heard that right, why would the second quarter gross margin expansion be less than Q1 despite the fact that you're saying revenue should be better in second quarter versus Q1?

Joe Alkire
Yeah, so I'll take the gross margin, and I'll let Scott and Tom start with Lee. So, yeah, Ike, for the full year, gross margin is expected to be up 20 to 40 basis points. We set up 30 in the first quarter and then that moderates a bit in the second quarter. There's some seasonal dynamics just in terms of mix, but the biggest driver is we expect product cost tailwinds, a modest product cost tailwind in the first quarter. And then that begins to flip to a headwind based on the product cost inflation that we expect to see, that we can see given the inventory commitments we've made to date. And then you have Project Jeanius beginning to kick in as we move into the second quarter and into the back half.

Scott Baxter
Fantastic. All right. So I'll start with Lee and then kick it over to Tom. But, Ike, basically, I do want to take you back a little bit. Years ago when we started this journey, seven years ago almost, we had a little bit of a problem with Wrangler, and we went through a very elongated about year and a half process. We took Wrangler down to the studs, almost like building a new house. And we're doing the exact same thing with Lee right now. We're on the other side of it, but we feel real confident about it. But what you're seeing right now from the sell-through,

especially at D2C, is you're starting to see some of the new product and some of the resonating we're having with women specifically. So our team has done a really good job getting ahead of that, building great product, telling really good stories. And we're able to bring that to life immediately because it's on our website and it's in our e-commerce channel.

So that's why you're seeing the beginnings of that happening really nicely. So we're really proud of that and real happy. But that is the culmination of the work that's been going on for the past year. Now what you're going to see is you're going to see that continuation from a wholesale standpoint, but it takes a little bit longer, as you know, to fill that pipeline going forward. So we're at that inflection point right now, feeling really good as a team. But I will tell you an incredible amount of work -- we've had to change out some of the team. We've changed out some of our advertising agencies. We've really done a nice job from a product standpoint. We have left nothing untouched as we move forward. You saw what happened with Wrangler and all the work that was done. We're very optimistic that we're doing the same with Lee.

Tom Waldron
Yeah, and I've got to hand it to the leadership team, Ike. In terms of the team, very quickly last year, really, as Scott said, took it down to the studs, created a new creative vision, new consumer targets, the product innovation. And that is something that's going to pull through and continue to accelerate as the year goes. Look, we have work to do with Lee. There's no question about it. We understand where our issues are, but we're really excited about the work that has been done by the leadership team. And I always look at D2C as a little bit of a leading indicator. So, with that pulling through, it's resonating with the consumer. And so we're looking forward to this transition year and back to growth in '26.

Ike Boruchow
Great. Very helpful. And then if I can sneak in one more for Joe. Basically, I just want to sanity check the Jeanius math. So on Jeanius, you're saying 30 million benefits to this year with flow through of 10 million to 15 million and that you'll see full benefits by the end of '26. So just to be clear, that leaves 70 million plus of Jeanius benefits for '26, and if the reinvestment rate is similar to '25, which seems like it's 35% to 50% roughly, that would imply you guys have around 25 million to 35 million at a minimum of EBIT tailwind from the initiative as you -- when you go into '26? Is that -- at a high level, is that the right way to think about it?

Joe Alkire
Yeah, you got the numbers right, Ike. Let me just unpack that a bit because there's a lot in there. So we are delivering $30 million of savings in '25 on a gross basis. We intend to reinvest about half of those back into the business and the brands to fuel the growth initiatives that we have in front of us. About $10 million of that will come on the gross margin side, concentrated primarily in the fourth quarter, given the lead times in the supply chain and the lag effect as to when those benefits start to show up in the P&L. So as you can imagine, as we turn the corner into '26, those benefits start to scale quite meaningfully.

On the SG&A side, we're delivering about $20 million of savings. Those are more evenly dispersed throughout the year, but we do expect those savings to grow in '26 as we continue to execute against the initiatives within the program. From a reinvestment perspective, we're investing half this year. That's not necessarily representative of where we'll end up. We'll continue to appropriately balance and evaluate the investment opportunities we have against our goal of accelerating growth, but also improving profitability and returns on capital.

So that's the big picture. I'd say just one more thing. We're thoughtful about the approach, given the integration of Helly, but the end goal hasn't changed. But we are we are mindful on just the burden on the organization, just given the pending integration we have in front of us. So again, no change to the end goal, but we may resequence some things as we move through '25 and '26.

Ike Boruchow
Got it. Thanks a lot.

Operator
The next question is from Jim Duffy from Stifel. Please go ahead.

Jim Duffy
Thank you. Hi, Scott. Hi, Joe. Nice work with the working capital and the return on invested capital. Two questions for you - first, just a little more detail on the mechanics of the gross margin benefits for Project Jeanius. Explain how that scales in '26 and speak to the incremental opportunities you've identified that take you beyond the $100 million initial objective? And then on Helly Hansen accretion, the assumptions look super conservative, given the seasonality of the business. That seems to imply just low to mid-single digit operating margin in their seasonally strong 3Q, 4Q. I'm curious, the $0.15 estimate, is that a pro forma number for the full year or is there something else that explains why that's not higher? Thanks.

Scott Baxter
Yeah, thanks, Jim. So I'll start with Helly. So in terms of the outlook, we said we have not included at this point the revenue, earnings, or cash flow contribution at this point. The ultimate accretion is going to be somewhat dependent on the closing date, which we do expect to occur in the second quarter. Helly does lose money in the second quarter, similar to other outdoor brands, just given the seasonality of the business. So about 60% of the business is in the second half where we expect growth on both the top line and earnings to accelerate.

We said about $0.15 of accretion in '25 based on what we can see today. That's basically the EBITDA we expect in the back half of the year minus the interest expense on the debt financing. We have not included synergies in that accretion math at this point. We have not included what we believe to be significant working capital and cash generation opportunity for the business under our ownership. So more to come on that, Jim. We've got to get through closing, and we'll

give you an update based on what we see at the time. But I think sufficed to say, we're really excited about the acquisition and the value creation opportunity we see within our portfolio.

Joe Alkire
So on Jeanius, I'll take the financial piece of this, Jim. I mean, we talked about optimizing the balance between our owned manufacturing and sourced. In some cases, that does lead to lower costs. We're committing to that inventory as we speak. Those costs will begin to show up in the P&L in the back half, mainly in the fourth quarter, and that will carry through into 2026. Cost is just one factor in terms of the total equation. We're focused on speed, our ability to react, certainly servicing our accounts, and that capability has been a real source of strength for us over time. But that's the biggest benefit as we sit today in terms of what's driving it in '25.

Jim Duffy
And then, Joe, what is it that takes you beyond the $100 million initial objective, what are the incremental opportunities you've identified with Project Jeanius?

Joe Alkire
Yeah, it's both gross margin and SG&A, Jim. Just as we get deeper into the execution phase, we're just -- we're finding more opportunity just as we as we start to move into execution.

Jim Duffy
Thank you.

Scott Baxter
Thanks, Jim.

Operator
The next question is from Brooke Roach from Goldman Sachs. Please go ahead.

Brooke Roach
Good morning, and thank you for taking our question. I was hoping we could follow up on Ike's question and unpack the transitions that you're seeing for Lee from a distribution perspective, particularly in the U.S. How should we expect the Lee brand distribution footprint to look when you complete the transformation year?

Tom Waldron
Yeah, I'll take that. Thanks, Brooke. So, as we talked about, there has been some transition, particularly in the club area. But as we look at this brand and we look at creating this creative vision and this kind of new consumer target and a new elevated sort of outlook for it, we expect to expand distribution in current footprint in terms of space and real estate, but also moving into upper tier distribution, certainly some specialty – not going to get into any particular accounts, but this is all about elevating the brand and moving the brand up as we think two to three years out.

Brooke Roach
Great. And if I could just follow up on the investments and demand creation that you're expecting, can you speak to the percent of sales and marketing that you plan to spend this year and how we should be thinking about any cadence of sequential investment between Wrangler and Lee?

Joe Alkire
Yeah, on the percent of revenue, Brooke, I mean, we moved higher this year. I think our demand creation in the back half was up at a double digit rate, if not a little bit more than that. We'll continue to invest behind demand creation at a rate above revenue, pretty meaningfully above revenue in 2025. I'll let Tom speak to the Wrangler versus Lee.

Tom Waldron
Yeah. So as we think about last year, we had our new equity campaign that launched really in September of last year with Wrangler. That was the highest testing equity campaign that we had ever had. We're really excited about the results of that. The metrics that are pulling through from a brand equity standpoint are really, really encouraging. We also invested behind it. With Lee, we were in a transition year. And as we have spent last year getting ourselves ready for this year in terms of having an equity campaign launch in the back half of 2025, we're really excited about investing behind the Lee brand, just like we did on the Wrangler brand. As you can see, the results from the investments behind Wrangler were fantastic in both the market share gains, but also the shipments. And we expect similar results on Lee.

Scott Baxter
So, Brooke, this is Scott. Just one quick comment - through the years, you've seen brands that have made significant investments behind the brand in marketing and storytelling, and you've seen the message miss. And I think that's the most important thing here. Relative to how the message has landed with Wrangler, I think what you're going to see from Lee going forward is a much more intelligent approach, a better approach, and a message that will land going forward. So at the end, those dollars are going to work smarter and work harder for us as a company going forward.

Brooke Roach
And just finally, I was hoping you could elaborate on tariffs in more detail. You've spoken about a $50 million unmitigated potential impact for this year with a potential offset within 12 to 18 months. Can you talk to the mitigatory actions you are evaluating and how much of that mitigation you could action on in 2025 should these tariffs get put in place?

Tom Waldron
Sure. So I'll go ahead and start. So, Brooke, as you can imagine, this has been going on for a little while. So we've had a chance to go ahead and run through multiple versions of analysis on how we're going to go ahead and approach this. And I think we're in a really good spot relative

to how we're going to do that. Joe can speak a little bit more from a specificity standpoint for what he's already said in his script. But from a strategic standpoint, what I'll tell you is we do have a plan in place. We do have auxiliary plans dependent upon this situation. If it sticks, I think we're all hopeful that this will go ahead and work itself out over time. And maybe it doesn't work itself out from the beginning, but maybe it works itself out over time during the year.

So we've taken a couple of different approaches on how we're looking at it relative to the timing of it. But this has been fairly fluid, as you know, and it still has more time before it actually takes place and happens. But we're ready for it. And I think the one thing that gives me more comfort than anything is we are really good at this, and we are really strong from a supply chain standpoint, and we have a lot of levers to pull. We can start pulling those immediately, and they will flow fairly quickly in '25. And then I feel confident by some inflection point, which we should talk about if these come into play and these stick at our next call or two, talk about when that will all be mitigated in '26. But there will be a point in '26 where we're past these if in fact they stick and stay in place. But I think more to come relative to that. Anything to add? Are we okay?

Scott Baxter
No, no. Thanks, Brooke.

Brooke Roach
Thanks so much.

Operator
The next question is from Paul Kearney from Barclays. Please go ahead.

Paul Kearney
Hey, good morning. Thanks for taking my question. I guess going back to Lee, can you share some of your findings from the consumer insight work on Lee, who is the current customer and what is the segmentation of the customer you'll be going after? And then a follow up after that. Thanks.

Tom Waldron
Yeah, I'll take that. And I'm not going to get into it in terms of that would be more of like an Investor Day type thing to get into all the work that we've done. What I will say is that we probably in the past overshot going after a consumer that was too aspirational, too edgy. And now what we're doing is going after what we would call a very smart consumer who's very interested in fashion, but not on that edge.

And what really was happening, Paul, is the halo effect wasn't translating to our core consumer. And so this new consumer that we're going after from our target will have a much better halo on our core consumer. That's just one example. We could spend a lot of time with you on this,

but in general, I can assure you that there has been a lot of consumer research, a complete segmentation revamp on the Lee, who we're going after from a product standpoint and a marketing standpoint. And we're just going to show up a lot smarter. That really is going to help us drive volume, as opposed to I think we were chasing a little bit too far beyond what was going to help us drive our business.

Paul Kearney
OK, thanks. And just a quick one on tariffs - assuming they go through, I guess is how quickly does the impact begin to kind of flow through inventory and into the P&L? And then how quickly do you anticipate pulling the levers to start to mitigate it? Thank you.

Joe Alkire
Yeah, hey, Paul. So, look, we've got about 100 days of inventory. So assuming those tariffs go into effect next week, you're a couple of months away before when those would start to show up in the P&L. So I would think late Q2, and our response, again, depending on what we decide to do in terms of potential price increases or moving production around the supply chain, there'd be a lag effect. So you'd start to see the mitigating actions show up late second half 2025 and into early '26.

Paul Kearney
Okay. Thank you.

Scott Baxter
Thanks, Paul.

Operator
The next question is from Mauricio Serna from UBS. Please go ahead.

Mauricio Serna
Great. Good morning and thank you for taking my questions. Maybe could you talk a little bit more about what you're seeing in terms of the health of the consumer? Just interested how you saw like the POS trends decelerate in February meaningfully after a good start of the year, so just wonder what you're seeing across channels and across segments? And then maybe could you elaborate on the Wrangler brand momentum? I guess, it seemed like pretty strong growth for many years, for several years now. So is it fair to assume that there's going to be like -- this will be like another year of very divergent performance between Wrangler and Lee? Thank you.

Scott Baxter
Mauricio, I'll go ahead and take the consumer and then shift over to Tom for Wrangler. So I think it's really simple from a consumer standpoint, and I talk to the team about this a lot and talk to our Board about this a lot. The consumer right now is confused. If you just put yourself in their seat, they're worried about work, they're worried about the businesses that they're in. Are

those going to be impacted by some of the layoffs, the tariffs, the current situation right now, when will that pull through and when will they be able to get back to some sort of normalcy. Any time the consumer is feeling a little bit under attack like that, they get very conservative. And I think that we are in this country right now seeing that conservatism from the consumer because of their worry. I think we'll get through that. There's a lot of noise in the system right now. And instead of it being a little bit more simple like it's been in the past relative to maybe one specific thing is driving that worry, we have multiple things driving that worry right now. And we just need to work through that. We've all seen it; we've all been through these types of times.

And I think the most important thing that we will do here as an organization is we will continue to grow these brands. We'll continue to invest behind them, continue to talk to our consumers in a really sophisticated way. We'll work really hard on Project Jeanius. And then we'll integrate everything that we're doing with Helly Hansen and pull that whole package together. And then we'll all hopefully work through what's currently right now, just a very unpredictable time. And as soon as we can get to some more predictable state, we should all be in a really good place. And I feel really good about where we're positioned now, and I even feel better about how we'll come out of this on the other side.

Tom Waldron
Yeah, and from a Wrangler standpoint, we anticipate we will continue to take market share with Wrangler. I believe we're on the 11th quarter of market share gains. We're really proud of really the foundational work that set that up. That is something that is a long wake, and that will continue. We think about the equity campaign that launched in September of last year. From a metric standpoint, as I mentioned before, it's fantastic. All our metric scores are up, particularly in familiarity and consideration. And that will -- if you think about that Q1, Q2, Q3, up against a non-equity campaign. So that is a tailwind for the Wrangler brand.

Additionally, the real estate gains that we had gotten in fourth -- third, fourth quarter of last year, those will wrap. Those performed and also created some really nice real estate wins for us in the back half of 2025. And so that also will help us continue to take market share from a brand standpoint. And as we talked about before with Lee, this will be a reset year, but we're really encouraged about early signs as we move through the year. We will get stronger, and we're really looking forward to '26.

Scott Baxter
Mauricio, I just want to go back to the outlook because I know there are a lot of moving pieces. But, look, there's no change to our growth outlook on a full year basis versus 120 days ago, excluding the impact of FX. The outlook includes 2% to 4% revenue growth, excluding currency, solid gross margin expansion. We've got 5% to 7% operating earnings growth with EPS growth of 6% to 8% and strong cash generation of over $300 million.

So the outlook is -- it's balanced. It's more balanced than it was first half versus second half from both the revenue and an earnings growth perspective. The fundamentals of the business are strong. Our expected return on capital is strong. And we've got Project Jeanius that's giving us the opportunity to increase the rate of investment behind our brand. So, look, we think we're really well positioned. Our model has proven to be very resilient.

But what we've tried to do with the outlook is help you understand the bookends. So at the low end of the outlook, we've assumed the POS trends, the softer trends that we've seen in February, that that continues through the balance of the year. At the high end of the outlook, we've assumed POS trends that are positive and more consistent with what we've seen over the last 6 to 12 months. We've seen this variability throughout 2024. And consistent with '24, we've not assumed that our retailers change inventory levels relative to how they've been managing very conservatively over the past 12 months. So hopefully, that helps you just understand some of the assumptions that are included in the outlook we provided today.

Mauricio Serna
It does. It does. Very helpful to hear that. Thank you so much.

Unknown
Thanks, Mauricio.

Operator
This concludes the question-and-answer session. I would like to turn the floor back over to Scott Baxter for closing comments.

Scott Baxter
Thanks everyone for joining us today. Certainly appreciate it. And really appreciate the thoughtful questions. Gives us an opportunity to kind of share with you everything that we have going on here. I'm real proud of the team and all the effort that's going into the initiatives that we have. And one of the things that I look back on after doing this for a very long time is that, during these times, are you working on the right things and is the team focused on what they need to do to go ahead and get your business into a better position. And I feel real confident about Kontoor Brands and what we're doing in that respect. So look forward to our next quarterly call. Thank you for your participation today, and we'll look forward to talking to you all soon. Thanks, everyone.

Operator
This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.