Kontoor Brands
Second Quarter 2025 Earnings Conference Call
August 8, 2025

Presenters
Michael Karapetian, Vice President of Corporate Development, Strategy, and IR
Scott Baxter, President, Chief Executive Officer & Chairman
Joe Alkire, CFO & Global Head of Operations

Q&A Participants
Brooke Roach - Goldman Sachs
Ike Boruchow - Wells Fargo
Laurent Vasilescu - BNP Paribas
Mauricio Serna - UBS
Paul Kearney - Barclays Bank
Peter McGoldrick - Stifel, Nicolaus & Company

Operator
Greetings, and welcome to the Kontoor Brands Second Quarter 2025 Earnings Conference Call.

At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. If anyone should require operator assistance during the conference, please press "*", "0" on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Michael Karapetian, Vice President, Corporate Development and Enterprise Strategy and Investor Relations. Thank you, sir. You may begin.

Michael Karapetian
Thank you, Operator, and welcome to Kontoor Brands' Second Quarter 2025 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. 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 and Global Head of Operations, Joe Alkire. Following our prepared remarks, we will open the call for questions. Scott?

Scott Baxter
Thanks, Mike, and thank you, all, for joining us today. Our strong second quarter results exceeded expectations. Wrangler growth accelerated, the Lee turnaround is on track, and Helly Hansen performed above plan. Our performance highlights the significant opportunities from our expanded brand portfolio with greater consumer, geographic and channel diversification than we've ever had.

In our first quarter, as a combined company, we are off to a great start. Based on our better-than-expected first half results and improving visibility, we are raising our revenue outlook and reiterating our full year earnings outlook at the midpoint, now including tariffs and incremental demand creation investments. While the environment remains uncertain, we are entering the second half of the year from a position of strength.

Let me start with an update on Helly Hansen. First, the integration is progressing well. On the front end, the commercial teams are energized and performing at a high level. June results exceeded expectations, and this momentum has carried into the third quarter, supported by a strong product pipeline and accelerating order book. To build on this momentum, we are creating the investment road map to accelerate growth.

We see significant opportunities in the U.S. through a combination of wholesale and retail expansion as well as investments in product innovation, category expansion and demand creation to increase brand awareness. Helly is also underpenetrated in key accounts, and we are developing plans to unlock new channels of distribution starting in '26.

Product and category expansion is another significant opportunity for Helly Hansen. The strong connection with the professional community has been a differentiator since its founding. These partnerships have made us #1 in sailing, a global leader in ski apparel and now provide a platform for expansion into outdoor. These platforms are driving the strength we see in the business today and into next year.

Within workwear, we are driving growth across three strategic categories: construction, high visibility and footwear. Product segmentation along a clear, good, better, best framework underpins our go-to-market approach. This has contributed to consistent growth over the past decade.

Over the near term, we are expanding our lightweight and cooling platforms to increase penetration in southern climates. In addition, we are scaling our HH Connect system, which provides unrivaled customization. This innovation has been an incredible success, since launching in early '24.

On the back end, we are leveraging our global platforms to drive greater scale and efficiency. While Helly has been executing at a high level on its own, we are more confident than ever it will see significant benefits under our ownership as a more synergistic global brand operator.

We have identified opportunities across supply chain, IT, HR and finance. These will materialize over time, and we will now expect to exceed our prior run rate synergy estimate of $15 million, which is not yet included in our outlook.

As we discussed last quarter, our value creation framework is now built on four pillars: accelerate growth, double Helly's operating margins, increase capital allocation optionality and establish Kontoor as the employer of choice in the industry. We are off to a tremendous start, and I could not be more excited about the opportunities ahead.

Now let's review highlights from Q2. Wrangler had another strong quarter. Revenue increased 7%, including 9% growth in the U.S. and 16% growth in digital. Our female business continues to surpass expectations, and we are in chase mode for many styles. Our investments in talent, product development and demand creation are generating healthy returns.

As an example, Bespoke continues to be a tremendous success, driving strong digital growth, while increasing our penetration in specialty retail. We will continue to scale this platform in the second half of this year.

We also hosted key activations at the ACM Awards, alongside the biggest stars of Country Music, including Lainey Wilson, who for the second year in a row, won Entertainer of the Year, as well as awards for female artists and Album of the Year. Our connection to Western culture is deeply rooted in Wrangler's DNA, and we see that translate to the sales momentum we have consistently demonstrated.

During the quarter, our Western business grew mid-single digits. Combined with strength in our core denim business, Wrangler drove its 13th consecutive quarter of market share gains as measured by Circana, in our men's and women's bottoms business. We gained 70 basis points of market share.

Wrangler has had an excellent first half of the year. Wholesale revenue grew mid-single digits and D2C grew 11%, including 15% growth in digital and 3% growth in brick-and-mortar. The team is executing on all fronts, and I am confident we will deliver a strong finish to the year.

Turning to Lee. As expected, revenue declines sequentially improved as our brand repositioning unfolds. Digital continues to lead the way. Our U.S. business grew high single digits in the quarter. Our refreshed creative vision is generating results with brand equity, purchase intent and brand favorability all increasing.

This is translating to increased revenue on our own digital platform as well, as our wholesale partners. To support this momentum, we will be launching our brand equity campaign in September, built on Lee's authority and denim, it speaks to the strength and quality that has defined the brand for more than 135 years, now reimagined for today's younger generation.
Test results have been very encouraging, and we are excited to bring the new vision to life, ahead of the holiday season.

We are also addressing existing distribution challenges. We are being more deliberate within U.S. mid-tier and have identified growth opportunities that are better aligned with Lee's refreshed brand positioning. We are also evaluating opportunities to optimize distribution in Europe and Asia. Progress will not be linear, and it will take time to do it right, but we are confident the turnaround is on track.

Finally, as we announced last week, Tom Waldron will be leaving Kontoor at the end of September. I would like to thank Tom for his contributions to Wrangler and Lee for almost 30 years. This is a bittersweet moment, and I wish him the best as he pursues new opportunities.

Before turning it over to Joe, let me reiterate the confidence we have in achieving our '25 plan.

Wrangler has significant momentum. Lee is on track and the integration of Helly Hansen is progressing, well. After an uneven start to the year, trends have improved, and we are seeing this momentum carry into the third quarter. The environment remains uncertain, but we are executing at a high level and have meaningful opportunity to create shareholder value.

We are also excited to share that we are planning an Investor Day in the first half of '26. This will provide a great opportunity to share the strategic vision for our brand portfolio, the power of our improving financial model and the significant optionality that underpins our value creation framework. We will share more details in the coming months, but I am confident we are on the path to drive strong value for our shareholders. Joe.

Joe Alkire
Thanks, Scott, and thank you all for joining us, today. Our second quarter results highlight the power of our operating model. While the environment remains dynamic, I am confident we have the right team, strategy and brand portfolio to create significant value for our shareholders in the years ahead.

Now let's review our second quarter results. Global revenue increased 8%, including a 4-point benefit from the contribution from Helly Hansen.

By brand, Wrangler global revenue increased 7%. In the U.S., revenue increased 9%, driven by 16% growth in DTC and 8% growth in wholesale.

Growth was broad-based, including continued market share gains, category expansion and solid growth in Western. Following the slowdown in February, POS trends have rebounded and increased at a mid-single-digit rate in the second quarter, with trends further accelerating in July.

Wrangler International revenue decreased 6%, driven by a 6% decrease in wholesale, partially offset by a 4% increase in brick-and-mortar retail.

Turning to Lee. Global revenue decreased 6% and was in line with our expectations, as the turnaround remains on track. U.S. revenue decreased 5%, driven by a decline in wholesale, partially offset by 9% growth in digital.

We are encouraged by the continued strength we are seeing in our digital business, where we have seen momentum continue into the third quarter with revenue up double digits, quarter-to-date.

Lee International revenue decreased 6%, with declines in wholesale offsetting low single-digit growth in DTC.

We are taking further action in APAC to establish a stronger foundation from which to grow the business. While these actions will have a near-term impact on revenue in the second half of the year, we are confident these actions better position the brand and our retail partners for sustainable growth, moving forward.

Now turning to Helly Hansen. Global revenue of $29 million in June exceeded our outlook of $20 million to $25 million. Sport and Workwear revenue was $17 million and $9 million, respectively. On a stand-alone basis, Helly Hansen revenue growth was slightly above our expectations in the second quarter. Revenue growth has further accelerated into the third quarter, as we expect the growth rate of the business to continue to accelerate in the second half of the year.

Now moving to the remainder of the P&L. Adjusted gross margin expanded 120 basis points to 46.4%, driven by the benefits of Project Jeanius, lower input costs and mix. In addition, Helly Hansen was accretive by about 20 basis points.

We exceeded our gross margin plan due to earlier-than-expected benefits from Project Jeanius, a stronger gross margin contribution from Helly Hansen and lower product costs.

Adjusted SG&A expense was $206 million, up 6% compared to prior year. Excluding Helly Hansen, adjusted SG&A expense decreased 5%, driven by prudent management of

discretionary expenses, Project Jeanius and lower distribution and freight, partially offset by investments in demand creation.

We remain focused on expense management and driving further improvements in operating efficiency, in light of the environment.

And adjusted earnings per share was $1.21, increasing 23% compared to prior year. Helly Hansen contributed a $0.12 loss per share, compared to our outlook of a $0.28 loss per share. Excluding Helly Hansen, adjusted EPS was $1.33 and increased 36%, compared to prior year.

Turning to the balance sheet, inventory increased 40% to $686 million. Excluding Helly Hansen, inventory decreased 1% to $482 million, as we continued to drive improvements in net working capital. Over the near term, we are focused on improving Helly's working capital and inventory turnover to increase cash generation and accelerate debt repayment.

We are harmonizing processes for planning, procurement, product development and inventory management. And we will begin to leverage our global supply chain capabilities, including our supply chain and AR financing programs, which will be a significant unlock for the business. We are pleased with the quality and composition of our inventory and we'll continue to manage working capital, prudently.

Excluding Helly, we expect inventory to increase at a high single-digit rate in the third quarter, driven primarily by our growth expectations, as well as Project Jeanius-related operational transitions, within the supply chain. We expect inventory growth to normalize in the fourth quarter with our days on hand projected to remain consistent with prior year levels.

We finished the quarter with net debt or long-term debt less cash of $1.3 billion and $107 million of cash on hand.

On a pro forma basis, our net leverage ratio or net debt divided by trailing 12-month adjusted EBITDA was 2.5x.

During the quarter, we made a voluntary $25 million debt repayment. And finally, on a trailing 12-month basis, adjusted return on invested capital was greater than 30%, excluding Helly Hansen.

We now anticipate returning to approximately 2x net leverage by year-end and back to pre-acquisition leverage by the middle of 2026, reflecting our expectations of stronger cash generation.

Our $500 million revolver remains undrawn and share repurchase activity remains on pause near term, as we focus on paying down acquisition-related debt and reducing leverage. We

have $215 million remaining under our current share repurchase authorization and as previously announced, our Board declared a regular quarterly cash dividend of $0.52 per share.

Before moving to our outlook, let me provide an update on tariffs. Our full year outlook now includes the estimated impact of higher tariffs, net of mitigating actions. This includes transferring production within our global supply chain, pricing increases, inventory management, supplier partnership initiatives and other proactive mitigating actions.

We started implementing a portion of these initiatives at the beginning of the third quarter with additional measures expected in 2026. We have assumed a 30% reciprocal tariff on all China imports and a 20% reciprocal tariff on all other countries from which we source product with the exception of Mexico. Based on currently available information, Mexico remains exempt under USMCA.

At these levels, the anticipated net impact to operating profit in 2025 is approximately $15 million, or about $0.20 per share.

We expect trade policy to continue to evolve and remain highly dynamic. That said, our supply chain is a competitive advantage. While we are not immune from the impact of higher tariffs, we remain confident we can substantially offset the impact of the business within a 12-to 18-month period.

Now let's review our updated outlook. Full year revenue is now expected to be in the range of $3.09 billion to $3.12 billion, representing growth of 19% to 20%, compared to our prior outlook of 17% to 19% growth.

Helly Hansen is now expected to contribute $455 million to full year revenue compared to our prior outlook of $425 million. Our outlook includes the impact of a 53rd week, which is not expected to meaningfully impact revenue on a full year basis. Excluding Helly Hansen, we expect revenue growth of 1% to 2%, including approximately 2% to 3% growth for the balance of the year, including the impact of the 53rd week.

We continue to plan the business, conservatively. For Wrangler and Lee, our updated outlook assumes no meaningful change in POS trends or retail inventory positions for the balance of the year. This is consistent with our prior outlook. For Helly Hansen, our revenue outlook is supported by current demand trends and the fall/winter 2025 order book, which accounts for the majority of sport revenue.

For the third quarter, we expect revenue of approximately $855 million, representing growth of 28%, including the expected contribution from Helly Hansen.

Moving to gross margin, adjusted gross margin is now expected to be approximately 46.1%, at the high end of our prior outlook of 45.9% to 46.1%. Our outlook represents an increase of approximately 100 basis points, compared to gross margin of 45.1% in 2024.

Our full year outlook now includes the impact of higher tariffs, net of mitigating actions. We expect third quarter adjusted gross margin of approximately 45.5%, representing an increase of approximately 50 basis points, compared to prior year.

Adjusted SG&A is expected to increase approximately 24%, reflecting the contribution from Helly Hansen and an incremental $15 million of demand creation and other investments relative to our prior outlook.

We are entering the second half of the year with strong momentum. We will continue to manage the business prudently, but believe we have an opportunity to capitalize on marketplace disruption and the strength of our brands and drive increased investment in support of our growth initiatives.

Our investment priorities are unchanged. And with the addition of Helly Hansen, we see significant opportunities to accelerate growth through geographic, category and channel expansion. Excluding Helly, we expect SG&A to increase at a low single-digit rate on an adjusted basis, consistent with our prior outlook and including the demand creation and other investments previously discussed. We continue to anticipate Project Jeanius savings to mature to a full run rate in excess of $100 million in 2026.

Adjusted EPS is now expected to be approximately $5.45, representing an increase of 11%. This compares to our prior outlook in the range of $5.40 to $5.50. Our outlook now includes about a $0.20 impact from higher tariffs and approximately $0.20 of incremental demand creation and other investments, compared to our prior outlook. Helly Hansen is expected to continue to benefit full year 2025 adjusted EPS by approximately $0.20, including the impact of higher tariffs, consistent with our prior outlook.

The integration is progressing well, and we now have line of sight to greater than $20 million of synergies, compared to our prior estimate of more than $15 million. We have not included any synergy benefit in our outlook at this point in the year.

We expect third quarter adjusted EPS of approximately $1.35. Helly Hansen is expected to be breakeven from an earnings standpoint, as strong accretion from the operations of the business is offset by acquisition-related interest expense.

Our third quarter outlook includes the impact of higher tariffs and the incremental investments previously discussed.

Finally, we continue to expect another year of strong cash generation. Cash from operations is expected to exceed $375 million, including the contribution from Helly Hansen. This compares to our prior outlook for cash from operations to exceed $350 million.

Before opening it up for questions, I want to reiterate the confidence we have in achieving our 2025 objectives. We are entering the second half of the year with momentum. Our teams are executing at a high level and our expanded brand portfolio and strong operating model provides multiple paths to drive revenue and earnings growth. As we move into 2026, we expect our capital allocation optionality to be significant, supported by strengthening cash flow and accelerated debt repayment.

While tariff headwinds will likely remain, we have multiple levers within our supply chain, combined with scaling Project Jeanius savings, to mitigate the impact to the business.

We are operating from a position of strength, and I am confident we are on a path to create significant value for our shareholders in the years ahead. This concludes our prepared remarks. I will 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 “*”, “1” on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press “*”, “2” if you would like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up your handset, before pressing the star keys. One moment please while we poll for questions.

Thank you. Our first question comes from the line of Ike Boruchow with Wells Fargo. Please proceed with your question.

Ike Boruchow
Hey, good morning, everyone. Congrats on the good results. Two from me, I think both for Joe. But the first question is basically, Joe, you raised the Helly Hansen revenue to $455 million. Can you tell us what the EBIT contribution is this fiscal year? And then just bigger picture, just because you obviously don't have a full year of this, on an annualized basis, what is Helly currently run rating on revenue and EBIT?

Joe Alkire
Yeah, thanks, good morning, Ike. So when we announced the transaction, we highlighted about $680 million of revenue for Helly and about $50 million of operating income. That really hasn't changed in terms of our expectations, but it's evolved a bit given the impact of tariffs, etc. I'd say, when you look at our second half outlook and what's implied, we've got about $425 million of revenue assumed. That's up on a pro forma basis in the high single-digit range. And certainly, we've got the order book to support that.

From an earnings accretion standpoint, there's roughly $0.32 of accretion implied in the second half, and that includes a pretty meaningful drag from the acquisition-related interest expense, right? So that will begin to abate, as we move into '26.

Ike Boruchow
Got it. And then that was kind of my next question is just there's a lot of moving pieces with the interest expense and your plan for debt paydown and half a year of Helly, or 75% of the year of Helly. I guess it just might be helpful, Joe, if you could give us some kind of initial shape of '26 with kind of the main question being the growth rate that you think can be sustained on the core, the algo that you're using for Helly.

And then just kind of if you can wrap roll it up and then the main question being like can you expand from the corporate margin that you're at right now in the low 14s because obviously, Helly is a lower-margin business. Just can you continue to -- do you think the operating margin of the KTB business continues to move higher next year? Just any puts and takes at a high level would be great.

Joe Alkire
Yeah. So look, certainly appreciate the question given the moving pieces to the story. I'd say on Helly, big picture, we expect high single-digit growth over time, and we expect to double their operating margins. Certainly, synergies will be a part of that. We increased the synergy target, this quarter. We've got a couple of months under our belt and as we work more closely with that team, the list of synergies is growing.

So, that's how I would think about Helly. I'd say for the company in total, we're not giving a '26 outlook today, but I'll give you a high-level framework. I mean, barring a major slowdown in the macro environment, we expect the organic business to grow, next year. That'll be largely driven by Wrangler. We expect '26 to be a transition year for Lee, but we certainly expect continued improvement from the brand.

We said we expect to substantially offset the impact of tariffs over a 12- to 18-month period. Certainly, the tariff headwind will be bigger in '26. You've got a full year plus a 20% reciprocal versus 10% a couple of months ago. But we've got more time to respond. We've got more levers to pull and we'll do so, accordingly.

Certainly, Project Jeanius, you have those benefits scaling. We talked about approaching a full run rate, as we move across 2026. And then you've got capital allocation. We're generating a lot of cash. We're repaying debt more quickly. So again, we like where we are. We like our model. We've got a lot of optionality to drive accelerated growth and returns. So hopefully, that's helpful.
Ike Boruchow
Thanks, Joe.

Operator
Our next question comes from the line of Mauricio Serna with UBS. Please proceed with your question.

Mauricio Serna
Great, good morning. Thanks for taking my question. I guess, could you elaborate a little bit more on the cadence for the second half revenue growth? I think if you do the math, it's like 31% in the third quarter and then it accelerates to -- yes, so maintaining -- and then -- sorry, it's like 28% and accelerates then to 38%. So just trying to understand what's driving that acceleration in the fourth quarter.

And then on Lee, could you elaborate a little bit more about -- you talked about some opportunities for distribution and some actions in APAC to clean up like the business. Maybe could you talk a little bit more about what's happening in that part of the business? Thank you.

Scott Baxter
Joe, do you want to take the first one and then you and I will do the second one.

Joe Alkire
Sure, Scott. So Mauricio, yeah, on the back half, we gave you the revenue outlook for the third quarter of $855 million. You've got the full year, so you can back into the fourth quarter. I'd say, in terms of the fourth quarter weighting, there's really two things. We've got a 53rd week in terms of the organic business, and Helly's business is more weighted toward the fourth quarter, as well. So that's really what's driving the Q3, Q4 cadence.

Scott, do you want to start with China, and then I'll come behind you.

Scott Baxter
Yeah, I can start with China. We've taken some actions to improve our inventory position and also, most importantly, to go ahead and strengthen our broad base of retailers that we have there and our partner base. We think it's the right thing to do, going forward. And I'll tell you the specific reason for that is because our product is so good, moving forward, that we have a real great opportunity to do that. So we really like the team, and we really like the strategy that we have right there going forward, right now. Joe.

Joe Alkire
Yeah, Mauricio, we've been working on this for about 18 months to really reestablish the foundation in China for LED. It's part of the brand's global approach to the turnaround. I'd say our results have improved over the past year, but certainly more work to be done, and that market remains highly dynamic, as you know. So these actions are really the next set of initiatives to strengthen our presence in the marketplace, establish a stronger foundation and set us up for more sustainable growth, going forward with our retail partners.

So, no change to the significant opportunity we see in China, longer term. As Scott said, we've got a strong team on the ground, and I'd say we're more confident in our approach going forward than we've been in the last couple of years.

Scott Baxter
Mauricio, you asked a little bit about domestically. I wanted to go ahead and make sure we answered your question there. So we talked about sequentially improving over time, which we have again this quarter. The product looks really good. Here's the key, though. We're starting to see it from a digital standpoint where we touch the customer, immediately. So you've seen our performance improve there. And now we're going to supplement that with our first big campaign that we've had, our first big equity campaign in a very, very long time, well over a decade.

It's really a good campaign. We're really pleased with it. We back that up with really strong product, and then we'll start to go ahead and enhance our distribution as it relates to our new product introductions and also the campaign for the consumer that we're working, with going forward in the future. So we do see a really nice runway going there going forward, but we're doing it in incremental steps.

What's really happening right now is there's been a lot of work on this brand and a big thank you and shout out to the team, over the last 18 months. And now you're starting to see that all fall into place. So stay tuned, much more of the story to come in the future, and we will make sure that we keep you updated on all of it, going forward.

Mauricio Serna
Very helpful. Just a quick follow-up on the tariff commentary. Maybe could you elaborate on the two of the initiatives that you're doing to mitigate? Particularly interested in hearing what you're doing in terms of transferring production, like where are you moving things around? And I think you've talked about -- before you've talked about some selective price increases. What has been like the reaction from consumers and from your wholesale partners from those pricing actions? Thank you.

Scott Baxter
Joe, do you want to take the first part; I'll take the second part.

Joe Alkire
Yeah, sure. I can take this, too. Mauricio, look, there's still quite a bit of uncertainty in terms of trade policy. We expect the environment to remain dynamic here. We feel like we're well prepared to respond to changes in the policy landscape, as well as the impact of tariffs. So, we've mitigated all but $15 million or about $0.20 of the '25 impact. Pricing is a piece of that. Scott will touch on that in a moment. But one of our competitive strengths is our global diversified supply chain.

So while we're not immune, at least in the short term, we do have the ability to mitigate the impact over a 12-to 18-month period, and we remain committed to that. So pricing is part of a holistic strategy, moving production around is part of a holistic strategy. We called out supplier partnerships, cost sharing, etc., other initiatives to just help minimize the impact here. And we've got a broader set of initiatives as we move into '26 that'll help us mitigate the impact to the business.

Scott Baxter
Yeah, just -- good job, Joe. Just a quick comment. I think the single most important thing relative to how we've transitioned as an organization versus the past is, Mauricio, our brands are just in a much stronger competitive position. So you look at the strength of Wrangler and how it's just working with their consumer. And you look at the strength of Helly Hansen, our latest acquisition, you look at how we're building Lee back up. We're in a much better position from a pricing standpoint going forward. We just are doing a much better job.

So we're being real strategic about it and real smart about it, and Joe talked a little bit about how we're going about it. So I feel real confident that we're priced correctly in the marketplace, and we'll continue to work with our consumers and customers, going forward. We feel really good about where we are, right now.

Mauricio Serna
Great, thanks so much.

Operator
Our next question comes from the line of Paul Kearney with Barclays. Please proceed with your question.

Paul Kearney
Good morning. Thanks for taking my question. Sorry, but just a clarifying question on the tariff impact. So the press release cites a $30 million tariff impact. Last quarter, you spoke to a $50 million unmitigated impact. Is that $30 million number net of both mitigation efforts and higher rates since then? And as we look to next year, what is a good full year run rate impact from tariffs? And when do you expect to be able to fully mitigate that impact? Thank you.

Joe Alkire
Hey, Paul, good morning. Scott, I'll take this one. So the $30 million that we called out in the release that's now included in the outlook, there are two pieces to that. First piece is a $15 million tariff impact that's fully mitigated. So that's the hit to earnings this year as a result of tariffs, now that our mitigating actions are in place. The other $15 million includes increased investments mainly around demand creation for our brands, that's now included in our outlook. So that's the $30 million.

In terms of the tariff impact, Paul, I mean, we quantified $50 million of unmitigated a quarter ago. That assumed a 10% reciprocal rate. We now have a 20% reciprocal rate, but our mitigating actions are now fully embedded. So the net of all that is a $15 million impact to 2025.

Paul Kearney
Great, thank you. And if you could also just comment on, maybe just on the Wrangler business specifically. And I know you're priced appropriately, but what are the conversations with the retailers? How are they managing inventory levels in the channel? And just anything that you can add for the outlook for the remainder of the year on Wrangler? Thank you.

Scott Baxter
I'll start, Joe, and you can chime in. Our Wrangler business continues to really thrive. And it's because the team has done the right thing from a coordination effort around our brand, around product, around our marketing campaigns, around the folks that we're working with like Lainey Wilson. Our interactions and our conversations with our customers are really significantly great, right now.

They want our product. They want to showcase our product. They want our product in the front of their stores. Our women's business is doing really well, which has complemented a strong men's business that we've had for a very long time.

We've introduced some things that have just -- they've exceeded our expectations like Bespoke because the product is just so good and it's just resonating with females, around the country. So we're in a really good position there. Western is doing really well. It's a lifestyle, and it's a lifestyle that's here to stay and that's continuing to thrive, and we're really investing in that culture through rodeos and things like that and some of our entertainers.

So, the product pipeline looks really good. The future looks really good. Our marketing campaigns look good and our relationships with our customers and our consumers, from a digital standpoint, are really -- in a really good place, right now. Joe, anything to add?

Joe Alkire
Yeah, Paul, I'd say that the outperformance in the second quarter on the top line was really driven by strength in Wrangler. And we saw POS improve. So you'll recall, February was slow. We saw trends improve into March, April. We saw POS further accelerate into May and June. And we've seen that strength continue into July, and that's after our pricing went into effect.

And to Scott's point, the growth has been fairly broad-based. It's been wholesale, it's been D2C, it's been female, etc. So we're in a really, really good place with the Wrangler brand, as we move into the second half.

Paul Kearney

Appreciate the answers. Best of luck. Thank you.

Scott Baxter
Thanks, Paul.

Operator
Our next question comes from the line of Peter McGoldrick with Stifel. Please proceed with your question.

Peter McGoldrick
Hey, thanks for taking my question. I'm interested in the Helly Hansen opportunity. As you begin the integration process, I'm curious what you're seeing today relative to at the beginning of the acquisition process. Are there any parts of the business where you feel better about the tangibility of growth or profitability opportunities?

Scott Baxter
Yes. So I'll go ahead and start, Peter. Peter, after doing a lot of these through the years and having some experience here, there's one thing that always gives you incredible apprehension. So you know we bought a great brand with a really good business model with a really nice opportunity. And one of the strategic reasons that we bought the brand is because there was a big North American opportunity, and we know the business. We think there's a big outdoor business. But when you go into these, you have to really get the culture right.

And one of the things that's been really important to us is make sure that our two cultures are working together. And I've been blown away by the culture at HH and how it fit our culture and how well they're working together. I got to tell you, I'm really impressed with the talent at Helly Hansen, how easy these folks are to work with, how quickly they get it and how our two businesses have emerged together in a very, very short period of time.

We've got really good product coming out. And there's a big opportunity here from an outdoor standpoint, from a workwear standpoint, from a footwear standpoint. And we think we can get after that in a pretty elegant way, going forward.

We've got a couple of key hires to make here from a president standpoint and from some key hires in North America. But we knew that from the very beginning. It's part of our plan here in '26, and we'll go ahead and get that done in '25 into '26, and we'll get that done and will put us in a really enviable position, going forward. But I think it all starts with the culture, and then you've got really great product. We're telling some great stories and the teams are working really well together. I would tell you, I give this an A to an A+ from all the different ones that I've done in my long career. Joe.

Joe Alkire

Yeah, Peter, I think just in terms of growth in the building blocks, I mean, we've got high single-digit growth in the back half. It's fairly broad-based. It's sport, it's workwear, it's wholesale, it's D2C. It's fairly broad from a geographic standpoint. We've got the order book in hand. We're starting to get visibility into spring/summer, next year. That's looking pretty strong, as well.

And then from a margin standpoint, you can see what we've embedded in the second half of this year that really doesn't impact synergies yet. That doesn't reflect some of the opportunities we see just as we begin to work more closely with that team and the discipline and rigor we're going to put around the planning process, the inventory process, etc.

And I think one of the most attractive things about this is as they plug into our machine, there were many growth investments that they were having to make on their own that they now do not have to make because it's already built, right? So that growth will come at a really accretive rate, as we move forward.

Peter McGoldrick
All right, thank you. And then just thinking about the opportunities in the domestic market, I'm curious how we should think of the expanding domestic representation. Where will the consumer see Helly Hansen showing up more strongly? And from the investment community standpoint, where should we expect the growth to come from within the distribution -- established distribution, new distribution?

Scott Baxter
So I think it starts with the fact that they already have a fairly decent base, but now you're going to layer on the machine that we're going to help them with from a digital standpoint here domestically, and we've already started that process. You're going to go ahead and layer on the fact that we've got a nice D2C engine that we're going to help them with. They've got a nice series of D2C stores, but we see an opportunity to open more stores here over the next few years, as we go ahead and continue to fine-tune that model.

And then from a product standpoint, we think there's a big opportunity in outdoor, and that will relate to the current business that they have right now in sport and the current business that they have in sailing. We think that consumer all kind of navigates to the same area and shops in a very similar pattern. You'll see us in some of the more outdoor specialty opportunities, and you'll see us continue to go ahead and invest on the mountain because we think on the mountain is going to bring us a lot of halo effect, going down.

So we kind of have a lot of opportunities in few different spaces where we need to go ahead and invest and prioritize in those.

But I think the single most important thing is we see years of opportunity in years of growth. And that is, again, why we made the acquisition. Now the other interesting part about this business is the workwear piece of this business, which has a minimal impact here in the U.S.,

but we think there's incredible innovation in the workwear business, globally, that we haven't seen here in the United States. And Helly is going to allow us to go ahead and bring that into this huge workwear environment in a pretty significant way.

So we think there's a real nice opportunity from a footprint standpoint there also, leading with really innovative and technology innovative type product. So lots to come, but a really nice opportunity here domestically, going forward for a long time.

Peter McGoldrick
Thank you very much.

Operator
Our next question comes from the line of Brooke Roach with Goldman Sachs. Please proceed with your question.

Brooke Roach
Good morning. Thank you for taking our question. Scott, I was hoping you could contextualize the magnitude and the timing of some of the additional marketing investments that you're making, both in your core and also in Helly Hansen and the results that you expect to drive as you make those investments?

Scott Baxter
Sure. Let's go ahead and start with Wrangler. We've made, as you know, significant investments in Wrangler through the years. And you're going to see us continue to do that. You're going to see us continue in the next few years to invest more money behind that big engine and that big machine. And I'll tell you why. It's really simple. We believe in the people that are doing it.

They're doing an excellent job. They're making really great choices. Lainey Wilson is a great example, making great choices from a product standpoint. We just recently brought some new entertainers onto our platform. So a lot of great decision-making is happening in Wrangler that's helping us to drive our business, so we're going to go ahead and continue investing there.

Now I will tell you, we haven't done as good a job as we need to from a lead perspective, but we're starting that. We are kicking off. And it's really interesting. We're kicking off a huge campaign. Haven't done that in a very long time; shame on us. But now we're going to do it, and we've got the product to back it up. So that's what took so long.

When you think about these big turnarounds that happen, you have to put all those components and pieces in place a year, a year and a half ago. So you've got to build your product engine in a sophisticated way. You got to put the team in place. You got to start thinking about your distribution and you got thinking about where you're going to place your bets.

So we've done all that work, and now the team has put some really good work into the equity campaign, and we're going to invest behind that. We're not going to do all that work and not go ahead and show it and invest it and make sure that everyone sees it.

And there's a nice investment in our digital piece there, too. And that's probably where I'm most encouraged. I'm encouraged by the fact that we've been investing in the digital component and the D2C component from a marketing standpoint, and we're seeing the customer really attract to that. So that's been really important.

And then we really like what Helly has done from the standpoint of in the European, the Canadian, the international markets in a really, really strong way. But we think that we can help them here understand this consumer, domestically, a little bit better and help them from that standpoint, and that work is being undertaken, right now.

And Joe talked about it, and you heard him talk about the investment that we're making in the businesses right now because our business is just so strong. It's an enviable position to be in to be able to invest back in your businesses, during these times.

Brooke Roach
That's really great. Thank you.

Joe Alkire
Brooke, from a cadence standpoint, a disproportionate amount of the $15 million investment will hit the third quarter. That's why you see the earnings growth a little more muted than what you otherwise would expect. We're doing that very deliberately in front of the important holiday season.

Brooke Roach
And then just finally for me, Joe, can you give us any quantification of the benefit that you're getting from incremental distribution opportunity in the core in the back half of this year?

Joe Alkire
Yeah, Brooke, our growth for the core business in the second half is approximately 2% to 3%. The big drivers of that are the 53rd week, as well as the new programs and the distribution that we've talked about. From an underlying POS inventory perspective, we really haven't assumed any change relative to where we've been. And July has been running ahead of those assumptions, so we have assumed a moderation August into September. We just -- we're a little cautious here on the consumer.

Brooke Roach
Great, thanks so much. I'll pass it on.

Scott Baxter

Thanks, Brooke.

Operator
Our next question comes from the line of Laurent Vasilescu with BNP Paribas. Please proceed with your question.

Laurent Vasilescu
Good morning. Thank you very much for taking my question. I wanted to ask, Joe, what is the Helly Hansen revenue contribution for the third quarter so that we can actually calculate the organics for 3Q? Thank you

Joe Alkire
Hey, Laurent, I would think of something in that $175 million kind of range.

Laurent Vasilescu
Okay. Thank you very much, Joe. And then, Joe, we've seen a lot of vendors so far report and see -- report kind of shift from 3Q to 2Q, which makes sense, ahead of August tariffs. Curious to know if you saw any shift from 3Q to 2Q because you have a large U.S. wholesale business.

Joe Alkire
Yeah, we really didn't see that, Laurent. I think we thought that might be the case as we were moving through June and saw trends accelerate a little bit, but things have further accelerated in July. So we really don't think timing has been a big driver for us, meaningful impact to us.

Laurent Vasilescu
Okay, thank you very much. And my last question is, FX has moved quite a lot, as of late. Should we assume -- I think it's like 1 to 2-point benefit from FX relative to 90 days ago, particularly, I think what I'd like to really hone in on is just like Helly Hansen, you can disclose it 60% Europe. Just like to understand what is the FX gain on the full year for the guide relative to what, 90 days ago.

Joe Alkire
Yeah, so on a combined basis, currency is not a material impact. We've been helped a little bit on the translation side. That's mostly Helly related. We've been hurt a bit on the transaction side. That's mostly peso related, given our manufacturing presence in Mexico. But part of the increase in the Helly outlook is currency, but we've also seen a strengthening in terms of the underlying business profile.

Laurent Vasilescu
That’s great. Thank you so much for all the color and best of luck the rest of the year.

Scott Baxter
Thanks, Laurent.

Operator
We have no further questions at this time. Mr. Baxter, I'd like to turn the floor back over to you for closing comments.

Scott Baxter
Thank you. I just wanted to say thank you to everyone. Thank you to the team. We had a great quarter. We're working really hard. It's heads down, driving results and look forward to sharing those with you upcoming here in the fall. Have a wonderful rest of the summer and thank you for all your support. We greatly appreciate it. Have a nice day, everyone.

Operator
Ladies and gentlemen, this does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation and have a wonderful day.