

Kontoor Brands
Second Quarter 2024 Earnings Conference Call
August 1, 2024

Presenters

Michael Karapetian, Vice President, Corporate Development, Strategy, and Investor Relations
Scott Baxter, President, Chief Executive Officer and Chair
Joe Alkire, Chief Financial Officer

Q&A Participants

Ike Boruches – Wells Fargo
Brooke Roach – Goldman Sachs
Bob Drbul – Guggenheim
Peter McGoldrick – Stifel
Mauricio Serna – UBS
Paul Kearney – Barclays
Laurent Vasilescu – BNP Paribas

Operator

Greetings, and welcome to the Kontoor Brands Second Quarter 2024 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, Enterprise Strategy, and Investor Relations Thank you. You may begin.

Michael Karapetian

Thank you, Operator, and welcome to Kontoor Brands second quarter 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 be in constant currency unless otherwise noted, and often on an adjusted dollar basis, which we clearly define in the news release that was issued earlier this morning. Our outlook is presented on an adjusted dollar basis.

Reconciliations of GAAP measures to adjusted amounts can be found in the supplemental financial tables included in today's news release, which is available on our website at kontoorbrands.com. These tables identify and quantify excluded items and provide management's view of why this information is useful to investors.

Joining me on today's call are Kontoor Brands President, Chief Executive Officer and Chair, Scott Baxter, and Chief Financial Officer, Joe Alkire. Following our prepared remarks, we will open the call for questions. We anticipate this call will last about one hour. Scott.

Scott Baxter

Thanks, Mike, and thank you to everybody joining us on today's call. I'm pleased to share that we delivered second quarter results above our expectations. Our results were driven by continued market share gains, gross margin expansion and strong earnings growth in cash generation.

In what remains an uncertain environment, the consistency of our execution and power of our model is driving competitive separation and improving fundamentals. We are entering the second half of the year with great momentum. Our brands are winning with the consumer and we expect revenue growth to accelerate for both brands, through the balance of the year.

Based on our improving visibility and stronger profit outlook, we are raising our full year gross margin, earnings and cash flow guidance, including incremental investments we are making in both brands. Midway through the year, we have executed our plan well, and I am confident our best is still ahead of us.

With that, let me review highlights from the quarter. Wrangler revenue grew 1% with growth in nearly every channel and region fueled by continued share gains and expansion into new categories. In our core bottoms and shorts business, we gained nearly 100 basis points of market share in the U.S., according to Circana, and our non-denim business, which includes Outdoor and tees, grew 14% in the quarter.

This broad strength demonstrates the power of the brand and the momentum we are carrying into the second half of the year. POS trends in the U.S. also accelerated through the second quarter, increasing 4% in June, our strongest month, year-to-date. Behind this strength is a combination of product and demand creation platforms that are resonating with consumers like never before.

Starting with Outdoor, which grew 25% in the quarter, we are bringing great product and value to the market and the consumer is responding. As an example, our utility pant grew triple-digits in the quarter, and we saw similar strength in shorts. Our investment in talent, design and product development are advancing our penetration in this large and growing category and we have visibility to this momentum continuing, supported by new launches this fall such as the

ATG, Chino and Cliffside utility pant, we believe we are just getting started and have a long runway for outsized growth, including double-digit increases, this year.

In our Western business, U.S. revenue grew 8%. Wrangler is rooted in western culture, which has been part of its DNA, since its founding in 1947. Our collaborations with artists such as Lainey Wilson and Cody Johnson are bringing a new generation of consumers into the brand. And George Strait, who we've collaborated with since 2003, recently set the record for the largest ticketed event in U.S. history. And most recently, we partnered with the summer blockbuster, Twisters, showcasing Wrangler's deep connection to America's Heartland.

We get asked if western travels around the world and the answer is a clear, yes. In Europe, we are seeing similar strength with the consumer across western bottoms and tops, which is attracting a younger and more female consumer into the brand.

Looking at the balance of the year, our pipeline is the strongest we've had. The Lainey Wilson collection is on track to be our largest collaboration, to-date. The market response to bespoke our new female fit innovation has been fantastic. We enter our second year with the Dallas Cowboys, and we are planning our first equity campaign in years, across broadcast TV and live sports.

The early reads on the campaign have been incredibly strong and we can't wait for its public debut in September. Taken together, we expect second half revenue for the brand to accelerate to low to mid-single-digit growth.

Turning to Lee, as expected, revenue in the quarter decreased 6%, reflecting sequential improvement. A decline in U.S. wholesale and macro pressures in Europe and Asia more than offset global growth in digital. That said, the reported figures don't tell the full story, so let me share details on what's behind the numbers.

First, we saw encouraging signs as the quarter progressed, including U.S. POS accelerating to 6% growth in June. This was the strongest POS performance, all year.

In addition, our core bottoms and shorts business gained approximately 20 basis points of market share in the U.S. Conservative retailer inventory management and the slow start to seasonal negatively impacted sell in. But the momentum we are seeing with sell through gives us confidence the brand is resonating with consumers.

Our consumer insights work is also advancing our end-to-end brand assessment in refreshed segmentation. In particular, we are seeing green shoots with younger and female consumers. In Gen Z, Lee female saw a 42% increase in perceived brand equity and a 36% increase in purchase consideration, over the last 12 months.

As we discussed last quarter, this is a significant focus for the second half of the year, and we are confident the work will pay dividends in the coming years. We know we need to capitalize on the opportunity to improve Lee's top line performance. The foundational work on consumer insights, segmentation, product development and demand creation gives us confidence we are on the right path. And over the near-term, we have several initiatives that support the second half acceleration.

In June, we launched the exciting collaboration with HEYDUDE, across both apparel and footwear and just yesterday, we followed up with the Lee Forever 21 collaboration, tying into the consumer work I just shared. These collaborations speak to the younger consumer that is seeking the brand, while expanding Lee into new categories.

And our biggest platform of the year, Lee X, is on track for its global launch. This performance innovation combines elite comfort with world-class aesthetic at incredible value.

It is launching as a true platform at wholesale and D2C and will include bottoms, tops and non-denim. It will launch later this year and scale in '25. And we are excited to share an upcoming collaboration with legendary designer, Paul Smith. He has worked with some of the world's most iconic brands and speaks to the rich heritage Lee has around the globe.

This will launch as a premium collection in spring '25. Supporting these initiatives, we will be making incremental demand creation investments in the second half of the year, which has been incorporated into our raised earnings guidance.

Putting it together, we expect second half Lee revenue to improve to low single-digit growth.

Finally, let me provide an update on Project Jeanius. The planning phase is going well, and we have started to move into the execution phase on several initiatives. We have a line of sight to approximately \$100 million of annualized savings at full run rate, none of which are included in our guidance. This will, structurally, increase our profitability ceiling, while adding significant investment capacity and optionality. We will be sharing more details over the coming quarters.

Before I turn it over to Joe, let me reiterate the confidence we have in achieving our '24 plan. Our brands are winning with the consumer, revenue is accelerating and we expect to generate double-digit operating profit growth over the balance of the year. We have also raised our earnings guidance to the top of our prior range and now expect to generate over \$350 million in cash from operations, reflecting our significant capital allocation optionality, including over \$100 million returned to shareholders, year-to-date, through our dividend and share repurchases.

We are sensitive to the current operating environment, which remains challenging, much as it's been for the last five years, but our teams are executing at a high level, inventory levels at retail

are in good shape, and we like the fundamentals of our brand positioning as high value and essential to the lives of many of our consumers.

We are operating from a position of strength, and we enter the second half of the year with great momentum to drive value creation for all stakeholders. Joe.

Joe Alkire

Thanks, Scott, and thank you all for joining us, today. We are pleased with our second quarter results, which came in above our outlook, driven by higher revenue, stronger gross margin expansion and better-than-expected earnings and cash flow. We are executing well against what remains an uneven environment around the globe.

For the quarter, revenue declined 1%, gross margin expanded 420 basis points, operating earnings increased 10% and EPS grew 27% to \$0.98.

As expected, the fundamentals of our business strengthened, as we closed out the first half of the year.

I will review the details of the quarter in a moment but, first, I'd like to share some perspective on how we see the business at the midpoint of the year. We have seen modest upside relative to our plan, particularly with regard to profitability and cash flow.

As a result, we have raised our gross margin, operating earnings and cash flow outlook, including the incremental demand creation investments we announced today. While there have been slight changes to our quarterly phasing, the fundamentals of our business are poised to further accelerate in the second half of the year.

Our balance sheet remains strong and as a result of stronger earnings and net working capital management, we've been able to return more than \$100 million to shareholders, year-to-date, through share repurchases and dividends.

In addition, we made a \$25 million voluntary debt payment against our term loan during the second quarter to further optimize our capital structure, yet another example of our balanced capital allocation approach and the optionality our model provides.

We are entering the second half with good momentum and remain on track to achieve solid growth for the balance of the year. POS in the U.S. accelerated through the quarter, with May increasing 2% and June increasing 5%.

To further support our accelerating revenue trajectory, we are investing an incremental \$6 million in demand creation for both brands that will largely occur in the second half of the year. We will continue to plan the business conservatively in light of the environment, but are confident these investments will support increasing brand equity and fuel accelerated growth.

So with that, let's review the details of our second quarter results. Global revenue declined 1%, as 4% growth in DTC was offset by a 2% decline in wholesale. Revenue in the quarter benefited by approximately two points from the earlier timing of shipments in the U.S. from the third quarter into the second quarter. Excluding the timing shift, revenue was modestly above our previous expectations.

By brand, Wrangler global revenue increased 1%. Growth was driven by continued category and channel expansion, including 11% growth in direct-to-consumer and strong growth in both Outdoor and Female. In the U.S., revenue was consistent with the prior year with 10% growth in direct-to-consumer, offset by a slight decline in wholesale.

Wrangler POS continues to outperform in its largest points of distribution, leading to another quarter of market share gains.

Following a softer April, POS strengthened as the quarter progressed with May and June displaying the strongest POS we've seen, year-to-date. However, as anticipated, retailers remain in a conservative posture with regard to inventory management, which continues to impact the cadence of our selling.

Wrangler International revenue increased 7%, driven by double digit increases in direct-to-consumer. The heat generated in the U.S. is translated in key European markets and is helping to bring a younger, more female consumer into the brand. In Europe, strength in DTC was partially offset by wholesale, which remains under pressure due to challenging macro conditions in the region.

Now turning to Lee. Global revenue decreased 6%. The quarter unfolded largely as expected, sequentially improving from the first quarter. Ten percent growth in digital was offset by reduced wholesale shipments in the U.S. and macro pressures in Europe and Asia.

U.S. wholesale declined 2%, reflecting retailer inventory management actions and a decrease in seasonals, as we expected. But we saw sequential improvement in both POS and shipments as the quarter progressed, with June POS increasing at a mid-single digit rate. Supported by new innovation platforms and the incremental demand creation investment previously discussed. We expect improved performance for the brand, globally, as the business inflects to growth in the second half.

Lee International revenue decreased 11%. In Europe, revenue declined 10%. Similar to Wrangler, ongoing macro pressures are contributing to cautious retailer behavior and more than offset 20% growth in digital. We expect the macro environment to remain uneven for the balance of the year, consistent with our prior expectations.

In APAC, revenue declined 13% with varied performance, by channel. In digital, momentum continued with double digit growth. We are seeing strong performance on live streaming

platforms such as Douyin, which grew at a triple digit rate, driven by innovation platforms such as Lee's cooling technology, Lee Light.

In Wholesale, we continue to make progress improving the quality and health of our retail network. During the quarter, we took proactive actions to accelerate these initiatives and establish a stronger foundation moving forward. While these actions had a near-term impact on revenue, we are confident the investments we are making will best position our brands for long-term success in the region and are focused on building a healthy growing marketplace with our partners.

For the second half, we expect high single digit growth for the APAC region.

Moving to the remainder of the P&L. Adjusted gross margin expanded 420 basis points to 45.2%, driven by the benefits of lower input costs, product mix and efficiencies we are driving through the supply chain. This was partially offset by targeted pricing actions, included in our plan.

Adjusted SG&A expense was \$195 million, up 8% compared to the prior year. Investments in direct-to-consumer and technology were partially offset by lower volume related distribution and freight expenses and adjusted earnings per share was \$0.98, representing an increase of 27%, compared to the prior year.

Turning to the balance sheet. Inventory decreased 22% to \$488 million, which was better than our previous expectation. Net working capital management is a top priority and has contributed to our strong cash generation, year-to-date. We expect our inventory to decline at a low to mid teen rate in the second half of the year, as we approach optimal levels in support of our annual turnover target of approximately 3.5x.

We expect the further unwinding of our inventory to contribute to strong cash generation in the second half and support our capital allocation framework. We finished the quarter with net debt or long-term debt less cash of \$525 million and \$224 million of cash on hand.

Our net leverage ratio, or net debt divided by trailing 12 month adjusted EBITDA, was 1.4x, trending toward the low end of our targeted range.

During the quarter, we repurchased \$25 million of stock under our current authorization and as previously announced, our Board declared a regular quarterly cash dividend of \$0.50 per share. Additionally, we made a \$25 million voluntary payment against our term loan, further strengthening our balance sheet, while providing additional flexibility and optionality.

Finally, on a trailing 12 month basis, our adjusted return on invested capital was 28%, representing an increase of 210 basis points, compared to the prior year.

Now, turning to our outlook. Revenue is still expected to be in the range of \$2.57 billion to \$2.63 billion, reflecting a decrease of 1% to an increase of 1%. Relative to our plan, we are pleased with our performance through the first half of the year. With our second half revenue well positioned to inflect positively, let me share additional perspective on our assumptions for the balance of the year.

First, last quarter, we discussed growth expectations of approximately 2% for the Q2 through Q4 period. There is no change to this expectation. However, given the 2 point impact from the earlier timing of shipments into the second quarter from the third quarter, we now expect growth in the second half up between 2% and 5%. Excluding the timing shift, there is no change to our expectation of mid-single-digit growth in the second half of the year.

Second, we continue to have good visibility to category expansion, distribution gains, as well as new innovation platforms in the second half. To support these platforms in accelerating revenue growth, we are investing an incremental \$6 million in demand creation against both the Wrangler and Lee brands to fuel our momentum for the balance of the year and into 2025.

Third, we continue to plan the business conservatively and assume no meaningful improvement in overall POS or retail inventory positions for the balance of the year. While the consumer has been resilient and inventory levels at retail remain suboptimal, retailers remain in a conservative posture, as a result of the uncertain environment.

In the third quarter, we expect revenue of approximately \$660 million, representing 1% growth, including the 2-point impact from the timing shift. We expect mid-single digit growth in the fourth quarter.

Moving to gross margin. We are raising our outlook to approximately 44.8% from 44.6%. Our updated outlook represents an increase of 230 basis points, compared to adjusted gross margin of 42.5% in 2023, excluding the out of period duty expense.

For the second half of the year, our outlook implies approximately 100 basis points of gross margin expansion, driven by the following assumptions.

First, we will continue to benefit from the structural drivers of mix. This is expected to contribute approximately 30 to 40 basis points to the full year. Beyond this year, we expect the benefits of mix to continue, as we scale our DTC and International businesses.

Second, we have good visibility on input costs with costs locked in for the balance of the year on both sourced and manufactured product. We continue to expect over 200 basis points of benefit for the year between lower product costs and proactive actions to optimize our supply chain. These benefits were largely front half weighted, and we anticipate a modest benefit from lower product costs in the third quarter and a limited benefit in the fourth quarter.

Third, we assume a modest headwind from lower pricing, increased promotional activity and supply chain disruptions. Collectively, these inputs are expected to negatively impact our gross margin by less than a point for the full year. Taken together, we expect approximately 100 basis points of gross margin expansion in the third quarter and approximately 120 basis points of expansion in the fourth quarter.

And finally, I continue to have a high degree of confidence in our ability to drive significant gross margin expansion over time, supported by Project Jeanius. Our planning and execution work is progressing as expected and we remain on track to share additional details, over the next one to two quarters.

SG&A is now expected to increase approximately 4%, including the additional demand creation investment I discussed earlier.

Operating income is now expected to be at the higher end of the prior range of \$377 million to \$387 million, including the impact of the incremental demand creation investments, reflecting growth of 10% to 11%, compared to the prior year, excluding the duty charge. We expect second half operating income to increase at a double-digit rate.

EPS is now expected to approximate \$4.80, including \$0.08 of incremental demand creation investment, representing growth of approximately 8%, compared to adjusted EPS in the prior year, excluding the out of period duty charge. This compares to our prior outlook range of \$4.70 to \$4.80.

Full year EPS growth will be negatively impacted by about 5 percentage points from a higher tax rate, including a 12-percentage point headwind in the second half. We expect third quarter EPS of approximately \$1.25.

Finally, we now expect cash from operations to exceed \$350 million, as a result of stronger earnings growth and improved net working capital. This compares to our previous outlook for cash from operations to exceed \$335 million.

Our increased outlook highlights the cash generative nature of the business and provides additional capacity to pursue our capital allocation framework. We will continue to evaluate options to, effectively, utilize our balance sheet and cash flow to enhance shareholder value.

Before opening it up for questions, I'd like to reiterate the confidence we have in our 2024 objectives. We are mindful of the uncertain environment and the pressures on the consumer, and while we will continue to manage the business conservatively, we are entering the second half of the year with momentum.

Our teams are executing well and we have line of sight to accelerating revenue growth, double digit operating earnings growth and \$200 million of cash from operations over the balance of

the year. The strength of our balance sheet and cash generation further support capital allocation optionality and TSR enhancing investments. We are operating from a position of strength, and I am confident in our ability to continue to deliver superior returns for our stakeholders.

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

Operator

Thank you. We will now conduct 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. That’s “*”, “1”, at this time. One moment please while we poll for questions.

Our first question comes from Ike Boruchow with Wells Fargo. Please proceed.

Ike Boruchow

Hey, everyone. Good morning. Congrats. Two questions for me, the first one is more high level. Just maybe, Scott and Joe, how are you feeling about the state of the business today just versus six months ago when we started just from a macro perspective, across the globe? And then maybe just a little bit more on that \$6 million of investment. What’s driving that decision? What specifically are those dollars going into?

Scott Baxter

Good morning, Ike. How are you? I’ll go ahead and start and kick it over to Joe. We’ll go ahead and do this, both of us. But the state of consumer is very similar to the last six months or so. We’re in about the same position. Here in the United States, I think of it as status quo from the standpoint of the consumer, but very resilient. So we like that about the consumer.

In Europe, the macro environment is challenging, and we’ve kind of had put that in our guide, going forward. It’s been that way for a couple of years. No real relevant change there. And in Asia, as we’ve talked about the recovery has been uneven, but we’re feeling better about it now, and we think it’s going to, for us be positive and inflect positive in the back half.

So, in general, no big change, but I think the thing that’s probably most important for us is, Ike, we continue to just focus on as a team, controlling what we can, so just controlling the environment to the best of our ability, creating great product and great, great marketing. So, I think you know our products are a great value for a great brand. So, in an environment and in a time like this, this is where we perform really well.

And then we can talk about \$6 million in a second, but Joe, anything to add on the consumer?

Joe Alkire

Yeah, maybe just a few things. Good morning, Ike. Look, we just came through the first quarter better than expected. We came through the first half better than expected. We have the toughest part of our year behind us, and the fundamental profile of the business is accelerating. So, we feel like we're operating from a position of strength and what remains a volatile time for our sector.

As we said from the beginning of this year, we're planning the business conservatively, in light of the environment. However, we've continued to drive strong share gains, strong gross margin improvement, really strong operating earnings growth and cash generation, through the first half.

So, the balance sheet is strong and we're focused on what we can control, and that's delivering high quality fundamental results. We're certainly mindful of the environment and the pressures on the consumer, but we think we put ourselves in a position to play offense when (inaudible) playing defense.

Scott Baxter

And a little bit on the \$6 million. The additional investment, Ike, that you asked about, we're in a really good position relative to how we're gaining momentum throughout the year. June was really strong from a POS standpoint, so we thought it was prudent to go ahead and put some more money back into marketing, continue to drive those market share gains that we've had, which have been really significant.

I think one of the things that you'll see, as an environment, as a consumer, is our new big TV commercial. We haven't had one in many years. It's a really big deal for us. It's tested extremely well. Obviously, we're going to run it because it's tested really well, but we're really proud of it. And you'll see that starting in September.

And then Lee is really focused from an additional investment standpoint in the digital area. So, in the U.S., also in Europe and Asia, too, so global. but I think just that additional investment in the business at this time of the year, at this stage, just kind of speak volumes about the confidence we have in full year '24, but more the confidence we have in our people and our product.

Ike Boruchow

Got it. And then a follow-up maybe for Joe, but Scott, for you, as well. Maybe just any more visibility on Jeanius, just kind of curious, you guys have had some time to work through this. I know the majority of the savings are hitting next year and beyond. But I don't know, any update on how we're thinking of the \$50 million to \$100 million, like where--it's a big range, any thoughts there? And then any quantifications on flow through to the bottom line versus reinvestment at this point?

Scott Baxter

Yeah, you bet, Ike. Jeanius is incredibly important. Let me first start before we get into some of the details. We put some of our best minds against Jeanius in this organization, globally, because it's a global project for us. And they have really gotten out of the gate very quickly and impressed us, tremendously, on the work that they're doing as a team. Therefore, we've taken that number up to \$100 million. So, we are at the high end of the range. So that's how we see it, going forward.

But as I've stated before, and as Joe's talked about before, it's the right time for us. We did the spinoff five, six years ago, but we also ran into the pandemic not long after that. So we didn't get a chance to get after this.

So the timing is really right. The brands are doing well, we have the right people and the right talent in place, and we just are very excited about what that can do for our company from an optionality standpoint going forward with the cash that it frees up. And also, a really important thing for us and any company is how you simplify your business model to work on the key initiatives.

And I think that's one of the things that we're doing really well as an organization, right now. We're working on the key things that drive performance and also drive culture and also drive our consumer connectivity, which is really important. And that is going to help us, tremendously, with Jeanius. It's not just that cash and how we deploy it will be significant. Joe.

Joe Alkire

Yeah, sure. So, I'd say the planning and early execution work is progressing as we expected, so we remain on track. We do intend to share more specific details in the next quarter or two, but suffice to say, we're really confident in the \$100 million opportunity that we have in front of us.

Just from a shaping standpoint, those savings will be more gross profit driven than SG&A driven. And I think, at this point, you can think about that as two-thirds, one-third in terms of the split. We do expect to reinvest a portion of the savings back into the business. We intend to lay out the details of that in the context of how we're thinking about 2025 in the next couple of years in the coming quarters.

So overall, we're really excited about the program and what we think we can deliver in terms of accelerated growth, improved profitability and returns on capital, over the next couple of years.

Ike Boruchow

Thanks so much, guys.

Joe Alkire

Thanks, Ike.

Operator

The next question comes from Brooke Roach with Goldman Sachs. Please proceed.

Brooke Roach

Good morning and thank you for taking our question. I was hoping you could help us understand the drivers of your confidence in your outlook for lead performance improvement in the back half. How should we think about that improvement between the U.S. and Asia? In the U.S., could you help us quantify the portion of improvement that you expect to see as a result of new distribution or demand creation investments relative to the underlying base business? And then in Asia, can you provide a little bit more color on what's underpinning that confidence in the improvement to high single digits in second half? Thank you.

Scott Baxter

Good morning, Brooke. I'll go ahead and start and then kick it over to Joe. We made some significant changes to our organization here recently, and we feel real confident on how we're thinking about this as two global brands working together. And Lee, we've done a lot of work in a very short period of time behind the scenes, on product, on consumer insights, on segmentation, on building the team, which is really important. And we're starting to see some very encouraging signs, although I want to make sure everybody realize it's very early. But we had a pretty significant share in POS increase here at the end of the second quarter, which was really important.

And I think it was an important confidence boost for the team, too, to see all the work that's been going in start to pay off a little bit. It won't happen overnight. But I'm confident, confident from a very high level that we're on the right path going forward. It's a great brand with an incredible amount of history and heritage and we have the right team against it going forward, globally, which is really important to us. Joe.

Joe Alkire

Yeah, Brooke maybe on Asia. So, excluding the actions that we took in the quarter on a sequential basis, the business was actually fairly consistent. We saw really strong performance on the digital side, which continues. And I think as we sit midpoint of the year, pretty good visibility into the high single digit growth in the back half of the year.

I'd say the biggest change, we've been working to improve the overall quality and health of our retail network in China. We've been in the process of consolidating partners, moving to more strategic partners with strong capabilities and that have the ability to invest alongside us, which we think sets a stronger foundation for the region moving forward, and we think we'll start to reap the benefits of those actions in the second half.

The APAC market, mainly China, similar to the U.S., has been plagued with excess inventory in the channel. And we've been working with our partners over the past 12 months. And at this point, we think that situation is largely behind us.

Brooke Roach

Great. Thank you so much. I'll pass it on.

Operator

The next question comes from Bob Drbul with Guggenheim. Please proceed.

Bob Drbul

Hi. Good morning, guys.

Scott Baxter

Hey, Bob.

Bob Drbul

Hi. The first question I have is, Scott, can you just talk about where you think we are in this western cycle, the sort of denim cycle where it's playing the best, even by segment. And then second question is on the Cowboys, the demand creation investments on the Cowboys, do you think Jerry Jones should re-up before the season starts or they should just play it out?

Scott Baxter

Well, let me go ahead and start with the Cowboys. Yes, for sure, we are big Cowboys fans here now. We're big Dak fans and we're all in. And we do love our partnership there. It's gone really well. But from a western and denim standpoint, we think that this is just a casualization across the globe. And we've kind of tried really hard to stop talking about--some people talk about these denim moments and these denim cycles and stuff, and we think we're kind of well past that and that denim is really just acceptable, everywhere.

And we think that we've done a really nice job as a company going ahead and growing those other businesses that are ancillary to it, too, kind of, for instance, as we've talked quite a bit about in our prepared remarks, our All Terrain Gear. And we've got two big, big products that we're kicking off. In July, we kicked off our Cliffside pant from All Terrain Gear, and then in August we're kicking off our Outdoor Chino. And that business has doubled in the last couple of years to \$200 million.

And we think we have a line of sight on that business to \$400 million in the next few years. But the western piece of it, it's funny, people talk about western kind of up and down, but we've been growing the western business pretty steady, since 1947. So, we kind of see it as a business that's going to continue to grow.

And the one thing that's been kind of interesting in the western business is become more global, Bob, in the last kind of year, year and a half, in that Europe's having a really nice moment and it seems to be really sticky there in that respect. And we're all in on the western side. I mean, Lainey Wilson, we just re-upped for two more years. Cody Johnson's line kicks off with us here real soon. WNFR is coming up in December. Our investments that we make in rodeos and all of our partners and I think most of all our product.

We've got a leading position in both tops and bottoms, male and female. And we just continue to resonate really strongly with our consumer. And if you're a real cowgirl and a real cowboy, you wear Wrangler. It's just that simple.

Bob Drbul

Thank you.

Scott Baxter

You bet.

Operator

The next question comes from Jim Duffy with Stifel. Please proceed.

Peter McGoldrick

Hi, this is Peter McGoldrick on for Jim. Thanks for taking our questions. First, I wanted to get a little more clarity on the market share momentum at the consumer level considering both owned DTC and at the point of sale where you have visibility. The sequential improvement in DTC is evident and the monthly performance is constructive. Can you talk about your expectations built into the second half guide and any color you can provide on quarter-to-date trends?

Scott Baxter

Sure. Do you want me to start?

Joe Alkire

Go ahead and start, Scott.

Scott Baxter

So we feel really good. We have been--we monitor with Circana, our market share gains all the time. And we've had a very, very nice run over the last two years with both of our brands from a market share standpoint. That is all about great product at a great price in the right channels. I think we're very fortunate with the partners that we have in our channels, the channels that we play in.

But we're controlling our own destiny by creating great product. Now, you heard earlier, we're investing another \$6 million in the business here in the second half because we think that it's an opportune time to continue to go ahead and gain share in the market and gain share in the channels that we go ahead and play in, specifically.

And from a D2C standpoint, our plan is to speak more about that in a pretty elegant level when we go ahead and have of our upcoming day that we're going to spend with you, the Investor Day here, that we'll announce that date soon. But there's more and more to talk about there,

and we feel real confident about our plans for that going forward in the future. Joe, anything to add?

Joe Alkire

Yeah. Hey, Peter, maybe just in terms of the numbers. I mean, in Q2, we did see our POS outpace our shipments. We did continue to gain share across both brands, but that was tempered by what we would characterize as continued retailer caution on the inventory management front. We are starting to see better balance between sell in and sell through, a more normalized replenishment order pattern.

But look, inventory levels at retail are in good shape. I said in the prepared remarks, they even are suboptimal across some of the key accounts in certain categories. But we saw good performance across the quarter. The acceleration was really driven by seasonals, Outdoor and Female. So, after a softer April, May and June really came on strong.

Peter McGoldrick

Thanks. And then on the capital allocation, as you move towards the low end of the target, net leverage range at 1x levered and mentioning some TSR accretive actions, can you talk about your considerations for investments in the business, shareholder returns, and also how you might be thinking about potential M&A? Thanks.

Scott Baxter

Sure. I'll start. Peter, we have been very consistent. And one of the things I think I'm really proud of our company about is that we haven't done anything just to do a deal. We have been very consistent in our approach and we've talked about not surprising the community and continue to go down that path. We're going to make sure that we do something, and if we do something, it's going to be a fair price, it's going to be accretive, it's going to go ahead and make a lot of sense to everybody.

And we just haven't found that, and we're not going to force it. I think that's one of the things that, as I look back in the last six years of being the CEO, that we haven't forced the issue just to make people happy, from an external standpoint. And so we feel real good about that. But I think you saw--I think you saw this quarter, some of the things that we did from a capital allocation, we just have so much optionality because we're creating a lot of cash.

And you saw that we did a \$25 million buyback and also paid down some debt, voluntarily. But we've returned \$100 million to our shareholders, year-to-date, and we're still only halfway through the year, so fairly significant.

And Joe talked in his script a lot about the cash that we're creating and how we're upping that a little bit, so it continues to give us more flexibility as we go forward. As you can see, we're investing it back into the brands also, but it's just a great place to be.

And I think the one thing that you can take from this is that count on us to make the right decisions, count on us to make the right decisions for our shareholders and count on us to be very prudent in making sure that if we do do M&A, it's going to make a lot of sense. But we don't feel the pressure and we don't feel rushed to have to do anything, if it's not right.

Peter McGoldrick

Very clear. Thank you.

Scott Baxter

Yeah, you bet, Peter.

Operator

Thank you. Our next question comes from Mauricio Serna with UBS. Please proceed.

Mauricio Serna

Great. Good morning and thanks for taking our questions. I guess, maybe if you could elaborate a little bit more on the timing shift impacting Q2 and Q3 revenue. Just curious about that 200 basis point shipment. Was that more like there was an acceleration in the POS and--the retailers pull forward some of that demand? Or is it just to be cautious because of supply chain challenges? And then maybe on the gross margin guidance, it seems like when you're talking about the drivers, they're very similar, they're the same drivers and seems like the impact from them are very similar to what you talked about in the first quarter results.

So just wondering, what is the incremental driver that led you to increase your gross margin guidance by 20 basis points? Thank you.

Joe Alkire

Hey, Mauricio. Good morning. So, yeah, on the timing shift it was about \$12 million, or about two points of growth in the quarter and about a nickel of EPS. Relative to the Q2 outlook we provided, excluding the timing shift, we came in about a point ahead on the top line and about \$0.08 on the EPS, mainly driven by stronger gross margin. And I think, look, the driver here, we had not expected in the outlook and improvement in POS. We had not expected overall inventory levels to improve, and we saw exactly that.

So, I think given the POS performance of both brands and where inventory levels are, we saw some demand pull into the quarter, relative to our previous expectations. In terms of the full year gross margin change, we really flowed through the upside that we saw in the quarter to the full year and kept our back half assumptions intact at this point.

Mauricio Serna

Hello.

Joe Alkire

Thanks, Mauricio.

Mauricio Serna

Sorry, I think I missed the last part of the answer or you cut off at the very last 10 seconds or something like that.

Joe Alkire

Yeah, sure. So from a full year gross margin standpoint, we increased the full year outlook by about 20 basis points. That's really the upside that we saw in the second quarter that we were able to flow through for the full year. For the second half, we've kept our assumptions intact, at this point.

Mauricio Serna

Got it. And then just maybe if I could follow up, just wondering on the commentary on APAC. So could you elaborate a little bit more like what are the actions that you're taking on that specific market? And just again, what gives you confidence that there's going to be sales growth in the high single-digits range in the second half? Thank you.

Joe Alkire

Yeah, Mauricio, I'll take that. So the actions we took, we're actively clearing excess inventory with our partners. We've really been working through this for the last 12 to 18 months, so there's no real new news here. But it did have an impact in the quarter. For the second half, we've got pretty good visibility at this point. So, we expect continued strong performance in digital. We do expect the wholesale business to re-inflect back to growth, given some of the challenges we've been working through, over the past 12 to 18 months.

Mauricio Serna

Great, thanks. And congratulations on the results.

Operator

The next question comes from Paul Kearney with Barclays. Please proceed.

Paul Kearney

Hey, good morning. Thanks for taking the question. I know we're--the next few quarters on Project Jeanius, but I'm wondering if at a high level, if you can qualitatively go over some of the specific projects within that that are driving some of the excitement. And then related to that, with improved outlook for cash flow, can you go over what are the drivers behind the improvement in working capital that are sustainable? Thank you.

Joe Alkire

Yeah, hey, Paul. Good morning. Yeah, so on Project Jeanius, we'll get into the details of this in the next quarter or two, where we'll lay out the plan in fairly good detail in terms of the areas of the business that we're touching. In terms of the stronger cash flow, it's really the stronger

earnings and the stronger net working capital management that we see at this point in the year.

Operator

Our next question comes from Laurent Vasilescu with BNP Paribas. Please proceed.

Laurent Vasilescu

Good morning. Thank you very much for taking my question. In the prepared remarks, it was called for both brands to accelerate in the second half. Just curious to understand this a little bit more so we can model this out, properly. Does that mean that Lee should grow year-over-year in the second half?

Joe Alkire

Hey, Laurent, this is Joe. Yes, that's our expectation. You'll see relatively stronger growth in Wrangler but we do expect Lee to inflect, positively, in the second half.

Laurent Vasilescu

Okay, great. That's very helpful, Joe. Thank you very much. And then on Project Jeanius, the \$100 million, that's great to hear. Is it still going to be a positive impact in the fourth quarter? I think you mentioned that in the last two calls. And then kind of, any kind of guardrails around--I think that's a gross number. I know you probably invest, reinvest, but any cost considerations that we should consider from a GAAP EPS perspective?

Joe Alkire

Yeah, hey, Laurent. Yeah, no change. There's nothing contemplated in the outlook from Project Jeanius at this point. We need to get a little further along, but we do expect to begin to see the benefits of Project Jeanius late this year, and then those savings will scale more meaningfully into next year. We will have some costs, as I said last quarter, some transitional one-time costs to get at the savings, and we'll lay those out for the group, so you've got a good understanding of the overall returns that we expect on the program.

Laurent Vasilescu

Very helpful. Thank you very much, Joe, for all your help.

Operator

Thank you. There are no further questions in queue at this time. I would like to turn the floor back over to Scott Baxter for closing comments.

Scott Baxter

As you can see, we had a really strong quarter. Count on us to stay focused on our business and really appreciate all the support that each and every one of you give us. And we'll look forward to seeing you here later in the fall. Have a great rest of the summer, everyone. Thank you very much for the support.

Operator

Thank you. This does conclude today's teleconference. You may disconnect your lines at this time. Thank you for your participation. Have a great day.