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RIDING A KONTLOOR

Kontoor Brands Inc is a global lifestyle apparel company, with a portfolio of some of the world's most iconic consumer brands: Wrangler and Lee. As many others, KBI took a hit during the pandemic, and is now focused on optimising the business and accelerating its performance in fundamental areas, including margin expansion and cash flow generation as part of its near-to-medium term business strategy.



WHAT THE WIKI SAYS

Kontoor Brands is an American clothing company. It was a spin-off from the VF Corporation in May 2019, and markets denim clothing under the **Lee**, **Wrangler** and **Rock & Republic** brand names. Kontoor Brands also operates the **VF Outlet chain** of factory outlet stores. Its head office is in Greensboro, North Carolina, US. Stock in the company is traded on the New York Stock Exchange under the symbol KTB; market capitalisation in 2020 was about **\$2.2 billion** (Source: Wikipedia).



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by **SANJAY BAKSHI**

Incorporated on November 28, 2018 in North Carolina, US, Kontoor Brands, Inc (KBI), having a presence in over 60 countries, is a global lifestyle apparel company that completed a spin-off transaction from VF Corporation on May 22, 2019 and began to trade as a standalone public company on May 23, 2019.

The company designs, manufactures, procures, markets and distributes apparel primarily under

the brand names Lee and Wrangler. Its products are sold in the US through mass merchants, specialty stores, mid-tier and traditional department stores, company-operated stores, and online. The company's products are also sold internationally, primarily in Europe and Asia, through department, specialty, company-operated, concession retail and independently operated partnership stores, and also online.

BUSINESS OVERVIEW

As of today, KBI boasts of strong brand portfolio consisting of iconic players with progressive history, enviable legacy, uncompromising product quality, consistent performance, and an already established global consumer base. In the past too, KBI's business has generated consistent margins and strong cash flow supported by its global reach, leading market position, deep customer relationships, and vertical

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integration of the supply chain. The company's strong margin profile combined with a diligent approach to operational excellence and capital management produce healthy cash flow, imparting an overall financial health that enables it to consistently invest in the business, return capital to shareholders, and repay its debts. More recently, it has been working to develop strategies as a new-born standalone company.

Since Kontoor separated from VF Corporation, it has undergone transformational change to improve operational performance, address internal and external factors and set the stage for a profitable growth. Significant initiatives related to business model changes, restructuring programmes and costs incurred to effect the separation from VF have been launched.

During 2019, Kontoor exited unprofitable markets in Europe and South America, unprofitable points of distribution in India, and transitioned former CASA (Central and South Asia) region to a licensed model.

Actions such as the closure of three owned manufacturing facilities in Mexico have been taken to right-size supply chain operations. The global organisational structure has been streamlined by redesigning the commercial organisation in the US and Asia.

Kontoor continued with proactive strategic programmes during 2020 to improve the quality of sales by transitioning the India business to a licensed model and reviewing the VF Outlet store fleet. The company is now focused on growing its three business channels, anticipating higher growth rates in non-US wholesale channels, and

the digital platforms of its US wholesale and branded D2C channels.

PRODUCT DESIGN AND DEVELOPMENT

Kontoor operates a multi-site approach to design and product development with supporting functions in the US, Belgium and Hong Kong. The creative teams collaborate globally with merchandising, marketing, planning, consumer insights and executive teams to ensure that the product delivers against brand positioning, consumer needs and costs requirements.

Although some product lines are offered more frequently, the company has two primary selling seasons — Spring/Summer and Fall/Winter. There are two innovation centres at Greensboro in North Carolina. Research for advanced fibre and fabric technology takes place in the dedicated material science lab whereas R&D for garment construction, laser processing and wash finishing advancement takes place in the company's design centre.

SOURCING AND MANUFACTURING

The company achieved a well-balanced, flexible approach to product procurement with the combination of internal and contract manufacturing which provides greater flexibility, shorter lead times and allows for enhanced inventory management in the US market.

Own manufacturing production needs are met through raw materials purchased from numerous US and international suppliers. Fixed price commitments for fabric and certain supplies are typically set on a quarterly basis for the next quarter's purchases. No single supplier represents more than 10 per cent of Kontoor's total cost of goods sold.

TABLE 1 Kontoor's revenues (1000 \$)

	FY20	FY19	FY18	CAGR (FY18-20)
US wholesale	14,30,739	16,12,327	16,74,562	-7.6%
Non-US wholesale	3,64,255	5,30,372	6,21,146	-23.4%
Branded D2C	2,54,330	2,81,438	2,96,841	-7.4%
Other	48,515	1,24,702	1,71,449	-46.8%
Total	20,97,839	25,48,839	27,63,998	-12.9%
US market	16,42,152	19,09,947	20,14,657	-9.7%
International market	4,55,687	6,38,892	7,49,341	-22.0%

SOURCE: Kontoor

TIMELINE: KONTOOR'S ORIGIN

- **1900s:** CC Hudson and his brother form the Hudson Overall Company, later to be named Blue Bell Operating Company.
- **1910s:** Sales of Hudson overalls boom! The company, rechristened as Blue Bell Overall Company, expands to a larger headquarter; name shortened to Blue Bell following merger with Big Ben Manufacturing of Kentucky.
- **1943:** Blue Bell acquires Casey Jones Company—a manufacturer of work-clothing, and with it the rights to Casey Jones' rarely used brand name—Wrangler.
- **1960s:** By now available in 51 countries and having expanded into casual wear, Lee is purchased by VF Corporation.
- **1986:** Blue Bell merges with VF Corporation of Pennsylvania, making VF one of the two largest jeans makers in the world.
- **2010s:** VF Jeanswear acquires Rock & Republic Enterprises Inc, makers of Rock & Republic denim and apparel.
- **2018:** In August, VF announces its split into two independent, publicly traded companies—VF and the new Kontoor Brands Inc, comprising VF's Jeanswear brands including Wrangler, Lee, and Rock & Republic, and the VF Outlet business.
- **2019:** On May 23, Kontoor Brands Inc becomes an independent, publicly traded company listed on the NYSE.



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TABLE 2 Kontoor's Global Sustainability Goals

Domain	Goal	Select example	Relevant SDG
1. Energy	Power 100% of owned and operated facilities with renewable energy by 2025	<ul style="list-style-type: none"> • Sign up for renewable energy power purchase agreements. • Evaluate on-site and community-based generation projects. 	<ul style="list-style-type: none"> - Affordable and clean energy - Climate action
2. Climate	Establish a science-based target by 2022	<ul style="list-style-type: none"> • Sign up for renewable energy power purchase agreements. • Retrofit owned facilities with energy efficient lighting, motors and HVAC equipment. • Research and publish carbon sequestration values for regenerative agriculture. 	<ul style="list-style-type: none"> - Affordable and clean energy - Climate action
3. Water	Save 10 billion litres of water by 2025	<ul style="list-style-type: none"> • Build and regularly upgrade advanced wastewater treatment for owned manufacturing. • Require suppliers to monitor wastewater treatment and remediate violations. • Collaborate in the commercialisation of innovative dyeing processes under Indigoood. 	<ul style="list-style-type: none"> - Clean water and sanitation
4. Materials	Source 100% sustainable raw materials, including forest-derived and animal-derived materials by 2023, cotton by 2025 and synthetics by 2030	<ul style="list-style-type: none"> • Require suppliers meet comprehensive sustainable material policies. • Support regenerative agriculture research and training for cotton producers. • Procure sustainable cotton through various sustainable management frameworks. 	<ul style="list-style-type: none"> - Responsible consumption and production - Life below water - Life on land
5. Chemistry	Use 100% preferred Chemistry by 2023	<ul style="list-style-type: none"> • Require supplier compliance with Restricted Substance List. • Use advanced chemical screening procedures. • Replace unwanted chemistry with preferred solutions. 	<ul style="list-style-type: none"> - Responsible consumption and production
6. Worker well-being	Work only with factories that support a worker well-being or community development programme by 2025	<ul style="list-style-type: none"> • Require supplier conformance to global compliance principles. • Require supplier facility audits and corrective action plans when necessary. • Collaborate with local NGOs to support worker wellbeing and community development projects. 	<ul style="list-style-type: none"> - Decent work and economic growth - Industry, innovation and infrastructure - Sustainable cities and communities - Responsible consumption and production

There are ten manufacturing facilities—seven owned facilities in Mexico and three leased facilities in Nicaragua. Products are sourced from 224 contract manufacturing facilities in over 20 countries. During 2020, 36 per cent of products were manufactured in internal manufacturing facilities and 64 per cent sourced from contract

manufacturers. Products are often manufactured and sourced from countries with tariff preferences and free trade agreements.

CSR & SUSTAINABILITY

CSR and sustainability are important priorities for Kontoor. Aligned to the UN Sustainable Development Goals

(SDGs), it promotes the exercise of responsible corporate citizenship and monitors the adherence to company-set standards. The Nominating & Governance Committee evaluates strategies, programmes, policies and practices related to environmental, social and governance issues and impacts to support the sustainable and

The Lee brand delivers trend-forward styles with exceptional fit and comfort through innovative fabric solutions and advanced design technology.



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TABLE 3 Significance of the 'Other' Channel

Other	FY20	FY19	FY18*	Growth FY20*	Growth FY19
Revenue (US\$ million)	60.80	148.50	201.60	(-) 59%	(-) 26.3%
Profit (US\$ million)	(-) 18.40	2.80	-	-	-
Operating margin %	(-) 30.3%	1.9%	-	-	-

SOURCE: Kontoor I *Figures not meaningful enough to mention I Excludes sales of Lee & Wrangler at VF outlet stores

responsible growth of Kontoor business. In order to grow as a company, it helps in improving the well-being of its communities.

➡ **US wholesale:** The largest among all of the company's channels, US wholesale accounted for 68 per cent of net revenues in FY20. In this channel, Lee and Wrangler products are marketed and sold to mass and mid-tier retailers, specialty stores including western specialty retail, department stores, and retailer-owned and third-party ecommerce sites. The channel also includes US sales from acquired denim brand Rock & Republic. A part of this channel's net revenue is contributed by digital sales from wholesale partners' websites, third-party platforms and other pure-play digital retailers. KBI's key customers for this channel include Amazon, Nordstrom, Kohl's, Boot Barn, Tractor Supply Company, Target and Walmart. Sales to Walmart were 32 per cent in 2018, 34 per cent in FY19 and 38 per cent in FY20. A small portion of the channel's US sales also comes from domestic licensing arrangements whereby KBI receives royalties based on a percentage of the licensed products'

net revenues with most agreements providing for a minimum royalty.

➡ **Non-US wholesale:** Accounting for 17 per cent of FY20 net revenue, this channel represents the majority of Kontoor's international business i.e. sale of Lee and Wrangler products in Europe, Middle East & Africa (EMEA) and Asia-Pacific (APAC) regions, as well as Rock & Republic in Canada—the largest international market for Wrangler, to mass merchants, department stores and specialty stores. Additionally, the channel includes sales on digital platforms operated by wholesale partners and sales in partnership stores—operated by licensees, distributors and other independent parties, located across EMEA, APAC and South America. Top revenue generators in Europe include France, Germany, Italy, Poland, Scandinavian countries, Spain and the UK while China—the largest international market for Lee—and India dominate the APAC region. A licensing arrangement also contributes to the channel's revenue though in small portion as is the case in the US market.

➡ **Branded D2C:** The direct-to-consumer (D2C) channel contributed 12 per cent of FY20's net revenue,

STORYLINE: LEE

- **1889-09:** Henry David Lee along with four business partners establishes The HD Lee Mercantile Company in Kansas, a company that packages and distributes groceries and other staples sourced from around the world under the Lee brand | Lee establishes The HD Lee Flour Mills Company, Lee Hardware Company and Kansas Ice and Storage.
- **1912:** Recognising potential in overalls' business, Lee Mercantile Company opens its first garment factory in Salina, Kansas to produce overalls and jackets | Inspired by products' success, the company shifts focus from grocery wholesaler and dry goods distributor to apparel manufacturing.
- **1913:** Lee creates first one-piece overall—the iconic Union-Alls, designed to protect clothing both below and above the waist | Union-All appeals to auto-mechanics and becomes popular among them.
- **1914:** Lee registers the term "Union-Alls" with US patent and adds them to its product line | Within two years there is "a suit of Union-Alls under the seat of every auto".
- **1917:** In March, the company moves to the new 9-storied headquarters in Kansas City, Missouri.
- **1917-19:** Seeing popularity of Union-Alls, company expands its manufacturing capabilities with new factories opening in Kansas City, Missouri; South Bend, Indiana; Trenton, New Jersey and Minneapolis, Minnesota: all producing only Lee Union-Alls to meet the demand.
- **1921:** The Buddy Lee doll, introduced to promote Lee Overalls, helps introduce new products offered by Lee over next 40 years, to be discontinued in 1960, followed by a later comeback in 1998 and officially retire in 2006.
- **1925:** Lee introduces working cowboys and champion rodeo riders—consulted Cinch-back 'Cowboy Waist Overalls' of 9 oz. denim for men (101) and boys (101B) | Lee develops strongest and bluest denim for durable work and western wear working with Canton Mills of Canton, Georgia.
- **1927:** Lee becomes first garment manufacturer to use a 'hookless fastener' in cowboy pants,



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overalls, coveralls and playsuits with front-zip, holds a national contest to get name 'Whizit' for these products; advertisements using Babe Ruth and other well-known celebrities help Whizit gain immediate popularity.

- **1930:** "The Great Lee Success Story" advertisements celebrate workers wearing Lee products in manufacturing plants across the industries, inspiring Lee's slogan "The Jeans that built America".
- **1937:** Lee becomes nation's largest manufacturer of work wear with sales of \$6.4 million.
- **1939:** Ripley puts Lee's Jelt denim overalls to test—buttons holding their shape under 5-tonne steamroller ironing, denim surviving a 26-miles crawl across untreated concrete and pockets securing their stitch with one man standing inside the pockets of suit worn by another man.
- **1940:** Lee supports World War II efforts, manufacturing shirts, pants and flight suits for US military.
- **1946:** Birth of "twitch" label along with its now famous "Lazy S" decorative stitching on the back pockets.
- **1947:** Lady Lee Riders introduced with guarantee 'To fit or your money back'.
- **1952:** Lee shirt and pant outfit the 52-foot tall Big Tex—symbol of the State Fair of Texas; shirt took 364 hours of sewing work while the largest Lee Riders ever manufactured required 100 yards of denim and 5,900 yards of thread.
- **1954:** Denim shifts from workwear to pop culture fashion with Hollywood stars like Marlon Brando and James Dean wearing jeans in cult movies.
- **1958:** Lee offers a new slim and trim, authentic western cut with a "dressed up" feel.
- **1960:** Lee offers Lady Lee Westerners for "gals on the go".
- **1962:** National advertisements offering the new Leesure's trim, "skin tight" silhouettes launched to meet fashion needs of high school and college students.
- **1970:** Unisex styles and new fads inspire Lee to produce fashion overalls, a variety of bell bottom jeans and painter jackets for men and women including reversible Gemini Jean set.
- **1972:** "Leisure" suit introduced offering a sportier alternative to traditional office attire, priced in the range of US\$ 4.95 to US\$ 7.95.
- **1977:** Lee embroidered denim design becomes famous | "Freeway Jeans", often referred to as Lee's Rainbow Jean, introduced in a campaign featuring supermodel and Charlie Angels' star Shelly Hack.
- **1982:** Lee released several new fits and fabrics for women in 1980s, becoming top-selling female jean manufacturer in the country | New Lee tagline "The Brand That Fits" launched.
- **1984:** Lee Jean jacket adorned by Rock star Bruce Springsteen made

to the cover of the *Rolling Stone* magazine.

- **1993:** Riders becomes a separate brand designed specifically for the mass market, available at Wal-Mart and K-Mart.
- **1996:** Lee hires a celebrity spokesperson to promote Lee National Denim Day, promotes breast cancer awareness; participating companies ask employees to donate US\$ 5 in exchange for wearing jeans to work; the campaign raises more than US\$ 98 million between 1996 and 2015 | Lee.com begins selling Lee products online and 'Fit Finder' kiosks – computers equipped with tape measures to determine which styles will fit consumers, debut in select stores doubling their sales.
- **1997:** Lee introduces Pipes—a fit and style revolution for 8-12-year-old boys enjoying extreme sports lifestyle featuring very wide legs for easy movement, deep pockets, contrast stitching and the exaggerated silhouettes.
- **2016:** Stretch denim fabrication in men's denim introduced that quickly catapulted Lee Extreme Motion as the fastest growing model by 2018.
- **2017:** Lee introduces a specialty denim collection inspired from its archives yet made with modern styling.
- **2019:** Lee headquarters moves from Kansas to North Carolina as a result of VF Corporation spin off to Kontoor Brands Inc.



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Since Kontoor separated from VF Corporation, it has undergone transformational change to improve operational performance, address internal and external factors and set the stage for a profitable growth.

representing sale of Kontoor's products through company-operated Lee and Wrangler full-price and outlet stores, concession retail locations and own websites. Sales of both the brands in VF Outlet stores is also reported under this channel. The channel operates 169 concession retail locations—dedicated sales spaces hired within another retail location against a fee based on percentage of sale, allowing Kontoor to differentiate and enhance its product presentation without incurring incremental overhead of opening a separate store. There are also 29 company-operated full-price Lee and Wrangler retail stores, stocking either or both brands, located in Asia, Europe and the US. Additionally, there are 57 company-operated outlet and clearance centres, majority of which used to be VF Outlet locations in the US carrying Lee, Wrangler as well as third-party branded merchandise. However, based on a review in FY20 the company chose to exit certain VF Outlet stores by not extending their leases and also closing down a select number of additional stores. It was also decided to convert all remaining locations to Lee/Wrangler outlets and clearance centres and discontinue the sale of third-party merchandise. Own websites serve customers digitally, helping net revenue grow. Lee and Wrangler products are currently available through company's own websites in 16 countries.

➔ **Other:** This channel used to comprise sales of third-party branded merchandise at VF Outlet stores before the FY20 review. The channel also included transactions with VF for pre-separation activities, none of which continued in 2020. These included sales of VF branded products at VF Outlet stores and sales to VF for products manufactured in Kontoor's plants. Though considered non-reportable, Kontoor reports the 'Other' channel performance only for the sake of reconciling company's aggregate operating results. During FY20, the channel's revenue decreased 59 per cent due to a 51 per cent decline in sales of third-party branded merchandise at VF Outlet stores amidst COVID-induced store closures and the company's decision to exit certain VF Outlet stores. Profits also declined mainly due to restructuring charges related to the company's exit from VF Outlet stores as well as deleveraging of fixed cost on lower revenues.

ICONIC DENIM BRANDS

Kontoor operates two iconic denim brands, namely Lee and Wrangler, with a combined legacy of 200 years. Branded products encompassing both brands are available through wholesale arrangements with mass and mid-tier retailers, specialty stores, department stores, independently operated partnership stores, and ecommerce platforms, as well as through the company-operated retail stores and websites. Brands are available in key

STORYLINE: WRANGLER

- **1947:** Americans introduced to Wrangler authentic western jeans designed by celebrity tailor Rodeo Ben I Professional rodeo cowboys Jim Shoulders, Bill Linderman and Freckles Brown wear-test the 13MWZ and endorse Wrangler brand for durability, quality and authenticity.
- **1948:** Jim Shoulders—world champion cowboy, becomes an official endorsee of Wrangler, goes on to win a total of 16 world championships.
- **1962:** Blue Bell opens a plant in Belgium and the Wrangler brand is successfully launched in Europe.
- **1963:** Wrangler begins using sanforized, 14 oz denim—"the heaviest denim ever made", in its western jeans.
- **1974:** Wrangler jeans and shirts become the first, and still only, western wear brand to be officially endorsed by the Pro Rodeo Cowboy Association.
- **1981:** Wrangler brand becomes the primary sponsor of professional driver Dale Earnhardt and the legendary blue-and-yellow "Wrangler Jean Machine".
- **1992:** Wrangler supplies clothing for the cast of "Pure Country" starring George Strait in Wrangler jeans.
- **1994:** Wrangler moves into its new world headquarters on North Elm Street in downtown Greensboro | Twenty X western jeans are introduced.
- **1996:** Wrangler becomes the number one market share leader in the US with one out of every four males wearing a Wrangler jean.
- **1997:** The 13MWZ - official jean of the Pro Rodeo Cowboys Association, celebrates its 50th birthday.
- **2003:** VF Jeanswear adds two new brands to Wrangler family: Riggs Work wear by Wrangler—a line of premium work clothes, and Wrangler ProGear hunting apparel for the serious sportsmen | The George Strait Cowboy Cut collection is also introduced.
- **2004:** Wrangler Jeans Company becomes the official jean of Dale Earnhardt Jr and the No 8 race team | Several new collections are added including Aura from the Women of Wrangler, Genuine



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- Wrangler and Wrangler Jeans Co.
- **2005:** Wrangler partners with the American Quarter Horse Association to develop the Ultimate Riding Jean for women.
 - **2007:** Death of Wrangler endorsee James A "Jim" Shoulders, known as the Babe Ruth of Rodeo, ends a 58-year partnership with the brand, the longest sports licensing endorsement in the history of professional sports.
 - **2009:** Country Music superstar Jason Aldean becomes the face of Wrangler Retro—a fashion western line for those who rock their style with an attitude.
 - **2013:** Wranglernetwork.com is launched in December | Advanced Comfort jeans debut for men featuring a unique cotton blend designed to move with the wearer.
 - **2015:** Wrangler Premium Performance Cool Vantage hits the stores for summer, incorporating exclusive technology innovations for performance, comfort and durability.

TABLE 4 Lee: Recent Performance

	FY20	FY19	FY18	Growth FY20	Growth FY19	Q1, FY21	Q1, FY20	Growth
Revenue (US\$ million)	687.60	882.30	960.20	(-) 22.1%	(-) 8.1%	250.15	182.756	36.8%
Profit (US\$ million)	37.90	68.20	92.70	(-) 44.4%	(-) 26.4%	51.12	0.97	
Operating margin %	5.5%	7.7%	9.7%					

SOURCE: Kootoor | Includes revenue from all channels

TABLE 5 Wrangler: Recent Performance

	FY20	FY19	FY18	Growth FY20	Growth FY19	Q1, FY21	Q1, FY20	Growth
Revenue (US\$ million)	1,349.40	1,518.10	1,602.20	(-) 11.1%	(-) 5.2%	398.82	303.39	31.5%
Profit (US\$ million)	244.90	215.00	266.00	13.9%	(-) 19.2%	83.98	33.86	148%
Operating margin %	18.1%	14.2%	16.6%			21.1%	11.2%	

SOURCE: Kootoor | Includes revenue from all channels

partnership stores, and ecommerce platforms, as well as through the company-operated retail stores and websites. Brands are available in key markets of the US, Canada, Mexico, the UK, continental Europe, the Middle East, China and through licensees across Australia, Asia, Africa, Central and South America, Europe and most recently, India, where the company is transitioning to a licensed model.

🔗 **Lee:** Lee is an iconic American denim and apparel brand, with over 130 years of heritage and authenticity. Lee collections include a uniquely styled range of jeans, pants, shirts, shorts, and jackets for men, women, boys and girls, with boys' and girls' jackets currently licensed in the US. The Lee brand delivers trend-forward styles with exceptional fit and comfort through innovative fabric solutions and

advanced design technology. The Lee brand offers multiple sub-brands and collections, making it attractive for a broader consumer base, including Body Optix, Lee101, Lee Riders, Performance Series, Shape Illusions and Vintage Modern.

The FY20 global revenue for the Lee brand decreased 22 per cent against FY19 results with sales declining in all channels. US wholesale revenue declined



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by 19 per cent, triggered by reduction in store traffic as a result of temporary closure of retail stores due to COVID-19. The decline in wholesale revenue is also attributed to the negative impact generated by a major US retailer's bankruptcy in Q2 FY20. Non-US America's revenue decreased by 33 per cent, because of COVID-19 as well as a 5 per cent negative impact from foreign currency. The APAC region's revenue also dropped 25 per cent with 35 per cent decrease in wholesale revenue. Besides, COVID-19 impacted EMEA too, decreasing Lee's regional revenue by 27 per cent.

In Q1 FY21 (January to March 2021), the Lee business increased by 37 per cent, driven by overall growth in wholesale revenue. US revenue grew by 28 per cent, including a 35 per cent growth in US wholesale revenue. Wholesale channel growth came from an expected shift in the timing of shipments from the Q2 to Q1, FY21, new business growth, and growth in the digital wholesale business. Non-US wholesale revenue also increased 52 per cent with 10 per cent positive impact of foreign currency. Lee's overall revenue growth during the quarter largely came from reduced COVID-19 impact with more markets opening up and relaxed restrictions. APAC and EMEA revenues grew 104 per cent and 12 per cent respectively along with a 14 per cent and 9 per cent respective favourable impact from foreign currency.

➔ **Wrangler:** Wrangler is another iconic American heritage brand rooted in the western lifestyle, with over 70 years of history offering denim, apparel and accessories for men and women. Multiple sub-brands target specific consumer demographics and consumer end-users, including 20X, Aura from the Women at Wrangler, Cowboy Cut, Premium Patch, Riggs Workwear, Rock 47, Rustler, W1947, Wrangler Retro, Wrangler Rugged Wear and All Terrain Gear by Wrangler.

Like Lee, global revenue for the Wrangler brand also decreased in FY20 but by 11 per cent, also driven by a decline in sales across all channels. Sales in America dropped by 8 per cent compared to FY19, primarily due to an 8 per cent drop in the US

wholesale business along with a decline in company's brick-and-mortar retail stores. However, a growth in the US digital wholesale business and company-owned ecommerce sites somewhat offset that drop. Impacted by COVID-19, non-US America's wholesale revenue also decreased 24 per cent. Changes in business model initiated in 2019 within the region lowered the sales besides 2 per cent unfavourable impact from foreign currency. Major disappointment was revenue of APAC region which declined 68 per cent, primarily due to India which was severely impacted by COVID-19 and exit of unprofitable points of distribution. The pandemic impacted revenues of the EMEA region too, decreasing 25 per cent from the previous fiscal.

The Wrangler business during Q1 FY21 also benefitted from lessening of COVID-19 cases and softened protocols. Aggregate growth of 31 per cent came from 38 per cent increase in US revenues driven by a 40 per cent growth in the US wholesale channel. While non-US wholesale business registered a 41 per cent growth supported by a 6 per cent favourable impact from foreign currency, APAC revenue declined 54 per cent mainly due to transitioning to licensed model in India. Wrangler's business in the EMEA region decreased by 4 per cent, impacted by lower wholesale revenues as well as lower sales in retail stores.

COVID-19 IMPACT

A large part of KBI's fiscal from January to December remained under the effect of COVID-19 as it began late January in China and mid-March in the US and Europe. In March 2020, the World Health Organization (WHO) declared coronavirus a pandemic, pushing the world to a global economic slowdown and had a negative impact on KBI's financial condition, cash flows and operational results.

The negative operating results continued into the second and third quarters of FY20 though a gradual improvement was seen in the latter, reflecting positive trends in digital wholesale business and owned ecommerce sites as consumer spending alternatively shifted to digital shopping. Governments took various actions to slow and otherwise



Wrangler is another iconic American heritage brand rooted in the western lifestyle, with over 70 years of history offering denim, apparel and accessories for men and women.

control the spread of virus including the issuance of stay-at-home orders and social distancing guidelines. With increased unemployment and economic uncertainty, along with temporary retail store closures and evolving government-imposed restrictions, traffic to retail stores and consumer spending dropped in quick time. This hit KBI's wholesale and D2C channels too.

➔ **Actions taken:** As happened with other global businesses, the company's top priority shifted to health and safety of its employees and consumers. Actions taken in this regard included enacting global travel restrictions for all employees, remote-working flexibility, implementation of superior cleaning and sanitation protocols in all facilities, and closing them as and when required. Most of these actions continued for much part of the fiscal 2020 even when company reopened and operated again. Despite disruptions caused by the situation, the company's manufacturing plants and distribution centres around the world continued to operate and fulfil wholesale and D2C orders. Frontline teams within manufacturing,

distribution and retail operations continued serving three of Kontoor's largest retail partners—Walmart, Amazon and Target—who provided essential goods throughout the pandemic. Developments in pandemic-affected and long-standing supplying-partner countries were monitored diligently so that productions could be prioritised and aligned in the best possible way to meet the demand. The company did admit delays in product availability, and yet was at large able to avert its impact on customer service. A task force was set up and regular meetings were conducted with it to ensure best practices throughout operations.

➔ **Financial prudence:** The company also took timely action to strengthen financial flexibility and preserved adequate liquidity during uncertain economic situation. Actions included temporary suspension of dividend payout, targeted reductions in opex and capex, temporary fee cuts for the board of directors, reduction of payroll costs through restructuring, furloughs and temporary salary reductions, and focused management of working capital

including reduction in finished goods received from owned manufacturing and sourced vendors. Later on, some of these actions were reversed.

2021 OUTLOOK

KBI is currently focused on optimising the business and accelerating its performance in fundamental areas, including margin expansion and cash flow generation as part of its near-to-medium term business strategy. In terms of long-term strategy, the company is focused on accelerating revenue generation and additional strategic actions to fuel and sustain long-term performance and gain competitive advantage around the world.

Alongside, the company anticipates opportunities to enhance its value-creation ability through investment in its core business. The primary areas of financial focus in 2021 will include continuing with aggressive reduction of debt, providing a superior dividend and implementing technology solutions to enable global efficiency that would include the implementation of company's global ERP and build IT infrastructure. **FF**