

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

- ☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the Quarterly Period Ended February 23, 2020
- or
- ☐ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Commission file number: 001-06631

LEVI STRAUSS & CO.

(Exact Name of Registrant as Specified in Its Charter)

DELAWARE

(State or Other Jurisdiction of
Incorporation or Organization)

94-0905160

(I.R.S. Employer
Identification No.)

1155 Battery Street, San Francisco, California 94111

(Address of Principal Executive Offices) (Zip Code)

(415) 501-6000

(Registrant's Telephone Number, Including Area Code)

None

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Securities Exchange Act of 1934:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value per share	LEVI	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definition of "Large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer ☐	Accelerated filer ☐	Emerging growth company ☐
Non-accelerated filer ☒		Smaller reporting company ☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

As of April 1, 2020, the registrant had 61,718,601 shares of Class A common stock, \$0.001 par value per share and 334,475,655 shares of Class B common stock, \$0.001 par value per share, outstanding.

LEVI STRAUSS & CO. AND SUBSIDIARIES
INDEX TO FORM 10-Q
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

	Page Number
<u>PART I — FINANCIAL INFORMATION</u>	
Item 1.	<u>Consolidated Financial Statements (unaudited):</u>
	<u>Consolidated Balance Sheets as of February 23, 2020 and November 24, 2019</u> <u>3</u>
	<u>Consolidated Statements of Income for the Three Months Ended February 23, 2020 and February 24, 2019</u> <u>4</u>
	<u>Consolidated Statements of Comprehensive Income for the Three Months Ended February 23, 2020 and February 24, 2019</u> <u>5</u>
	<u>Consolidated Statements of Stockholders' Equity as of February 23, 2020 and February 24, 2019</u> <u>6</u>
	<u>Consolidated Statements of Cash Flows for the Three Months Ended February 23, 2020 and February 24, 2019</u> <u>7</u>
	<u>Notes to Consolidated Financial Statements</u> <u>8</u>
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> <u>23</u>
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u> <u>44</u>
Item 4.	<u>Controls and Procedures</u> <u>44</u>
<u>PART II — OTHER INFORMATION</u>	
Item 1.	<u>Legal Proceedings</u> <u>45</u>
Item 1A.	<u>Risk Factors</u> <u>45</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u> <u>63</u>
Item 3.	<u>Defaults Upon Senior Securities</u> <u>63</u>
Item 4.	<u>Mine Safety Disclosures</u> <u>63</u>
Item 5.	<u>Other Information</u> <u>63</u>
Item 6.	<u>Exhibits</u> <u>64</u>
	<u>SIGNATURE</u> <u>65</u>

WHERE YOU CAN FIND MORE INFORMATION

Investors and others should note that we announce material financial information to our investors using our corporate website, press releases, SEC filings and public conference calls and webcasts. We also use the following social media channels as a means of disclosing information about our company, products, planned financial and other announcements, attendance at upcoming investor and industry conferences and other matters, as well as for complying with our disclosure obligations under Regulation FD promulgated under the Securities Exchange Act of 1934, as amended:

- our Investor Relations page (<https://levistrauss.com/investors/financial-news>);
- our Twitter account (<https://twitter.com/LeviStraussCo>);
- our company blog (<https://www.levistrauss.com/unzipped-blog/>);
- our Facebook page (<https://www.facebook.com/levistraussco/>);
- our LinkedIn page (<https://www.linkedin.com/company/levi-strauss-&-co->);
- our Instagram page (<https://www.instagram.com/levistraussco/>); and
- our YouTube channel (<https://www.youtube.com/user/levistraussvideo>).

The information we post through these channels may be deemed material. Accordingly, investors should monitor these channels in addition to following our press releases, SEC filings and public conference calls and webcasts. This list may be updated from time to time. The information we post through these channels is not a part of this Quarterly Report.

PART I — FINANCIAL INFORMATION

Item 1. CONSOLIDATED FINANCIAL STATEMENTS

LEVI STRAUSS & CO. AND SUBSIDIARIES CONSOLIDATED BALANCE SHEETS

	(Unaudited)	
	February 23, 2020	November 24, 2019
	(Dollars in thousands)	
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 873,564	\$ 934,237
Short-term investments in marketable securities	83,978	80,741
Trade receivables, net of allowance for doubtful accounts of \$5,835 and \$6,172	709,989	782,846
Inventories:		
Raw materials	5,152	4,929
Work-in-process	3,683	3,319
Finished goods	845,866	875,944
Total inventories	854,701	884,192
Other current assets	222,767	188,170
Total current assets	2,744,999	2,870,186
Property, plant and equipment, net of accumulated depreciation of \$1,073,020 and \$1,054,267	460,679	529,558
Goodwill	259,534	235,788
Other intangible assets, net	50,761	42,782
Deferred tax assets, net	416,390	407,905
Operating lease right-of-use assets, net (Note 1)	1,026,486	—
Other non-current assets	156,394	146,199
Total assets	\$ 5,115,243	\$ 4,232,418
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current Liabilities:		
Short-term debt	\$ 19,341	\$ 7,621
Accounts payable	304,207	360,324
Accrued salaries, wages and employee benefits	186,233	223,374
Accrued interest payable	15,911	5,350
Accrued income taxes	32,994	24,050
Accrued sales returns and allowances (Note 1)	185,830	171,113
Short-term operating lease liability (Note 1)	212,504	—
Other accrued liabilities (Note 1)	334,491	375,372
Total current liabilities	1,291,511	1,167,204
Long-term debt	994,392	1,006,745
Postretirement medical benefits	62,178	64,006
Pension liability	179,965	193,214
Long-term employee related benefits	94,597	84,957
Long-term income tax liabilities	10,823	10,486
Long-term operating lease liability (Note 1)	850,429	—
Other long-term liabilities	36,519	134,249
Total liabilities	3,520,414	2,660,861
Commitments and contingencies		
Stockholders' Equity:		
Levi Strauss & Co. stockholders' equity		
Common stock — \$.001 par value; 1,200,000,000 Class A shares authorized, 63,991,842 shares and 53,079,235 shares issued and outstanding as of February 23, 2020 and November 24, 2019, respectively; and 422,000,000 Class B shares authorized, 335,136,502 shares and 340,674,741 shares issued and outstanding, as of February 23, 2020 and November 24, 2019, respectively	399	394
Additional paid-in capital	601,976	657,659
Accumulated other comprehensive loss	(452,734)	(404,986)
Retained earnings	1,445,188	1,310,464
Total Levi Strauss & Co. stockholders' equity	1,594,829	1,563,531
Noncontrolling interest	—	8,026
Total stockholders' equity	1,594,829	1,571,557
Total liabilities and stockholders' equity	\$ 5,115,243	\$ 4,232,418

The accompanying notes are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in thousands, except per share amounts) (Unaudited)	
Net revenues	\$ 1,506,126	\$ 1,434,458
Cost of goods sold	666,799	651,650
Gross profit	839,327	782,808
Selling, general and administrative expenses	660,545	581,896
Operating income	178,782	200,912
Interest expense	(16,654)	(17,544)
Other income (expense), net	2,700	(1,646)
Income before income taxes	164,828	181,722
Income tax expense	12,139	35,271
Net income	152,689	146,451
Net loss attributable to noncontrolling interest	—	126
Net income attributable to Levi Strauss & Co.	\$ 152,689	\$ 146,577
Earnings per common share attributable to common stockholders:		
Basic	\$ 0.39	\$ 0.39
Diluted	\$ 0.37	\$ 0.37
Weighted-average common shares outstanding:		
Basic	396,216,057	377,077,111
Diluted	410,068,373	393,234,825

The accompanying notes are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in thousands) (Unaudited)	
Net income	\$ 152,689	\$ 146,451
Other comprehensive income, before related income taxes:		
Pension and postretirement benefits	3,591	3,422
Derivative instruments	15,405	1,737
Foreign currency translation losses	(8,133)	4,086
Unrealized gains on marketable securities	1,556	890
Total other comprehensive income, before related income taxes	12,419	10,135
Income taxes expense related to items of other comprehensive income	(5,723)	(1,741)
Comprehensive income, net of income taxes	159,385	154,845
Comprehensive loss (income) attributable to noncontrolling interest	—	(54)
Comprehensive income attributable to Levi Strauss & Co.	\$ 159,385	\$ 154,791

The accompanying notes are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY

	Levi Strauss & Co. Stockholders					
	Class A & Class B Common Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive (Loss)/Income	Noncontrolling Interest	Total Stockholders' Equity
	(Dollars in thousands) (Unaudited)					
Balance at November 25, 2018	\$ 376	\$ —	\$ 1,084,321	\$ (424,584)	\$ 7,346	\$ 667,459
Net income (loss)	—	—	146,577	—	(126)	146,451
Other comprehensive income, net of tax	—	—	—	8,214	180	8,394
Stock-based compensation and dividends, net	—	1,497	—	—	—	1,497
Reclassification to temporary equity	—	(506)	(23,339)	—	—	(23,845)
Repurchase of common stock	—	(165)	(2,923)	—	—	(3,088)
Shares surrendered for tax withholdings on equity award exercises	—	(826)	—	—	—	(826)
Cash dividends declared (\$0.29 per share)	—	—	(110,000)	—	—	(110,000)
Balance at February 24, 2019	<u>\$ 376</u>	<u>\$ —</u>	<u>\$ 1,094,636</u>	<u>\$ (416,370)</u>	<u>\$ 7,400</u>	<u>\$ 686,042</u>
Balance at November 24, 2019	\$ 394	\$ 657,659	\$ 1,310,464	\$ (404,986)	\$ 8,026	\$ 1,571,557
Net income (loss)	—	—	152,689	—	—	152,689
Other comprehensive income, net of tax	—	—	—	6,696	—	6,696
Stock-based compensation and dividends, net	5	17,530	—	—	—	17,535
Employee stock purchase plan	—	2,030	—	—	—	2,030
Repurchase of common stock	—	—	(37,071)	—	—	(37,071)
Shares surrendered for tax withholdings on equity award exercises	—	(75,243)	—	—	—	(75,243)
Changes in ownership of noncontrolling interest	—	—	(8,672)	—	(8,026)	(16,698)
Cumulative effect of the adoption of new accounting standards	—	—	59,708	(54,444)	—	5,264
Cash dividends declared (\$0.08 per share)	—	—	(31,930)	—	—	(31,930)
Balance at February 23, 2020	<u>\$ 399</u>	<u>\$ 601,976</u>	<u>\$ 1,445,188</u>	<u>\$ (452,734)</u>	<u>\$ —</u>	<u>\$ 1,594,829</u>

The accompanying notes are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in thousands) (Unaudited)	
Cash Flows from Operating Activities:		
Net income	\$ 152,689	\$ 146,451
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	35,974	28,559
Unrealized foreign exchange (gains) losses	(2,629)	9,046
Realized loss (gain) on settlement of forward foreign exchange contracts not designated for hedge accounting	1,988	(4,618)
Employee benefit plans' amortization from accumulated other comprehensive loss and settlement loss	3,591	3,422
Stock-based compensation	17,535	1,497
Other, net	2,320	(413)
(Benefit from) provision for deferred income taxes	(15,818)	(795)
Change in operating assets and liabilities, net of effect of acquisition:		
Trade receivables	67,767	69,672
Inventories	41,247	(48,120)
Other current assets	(9,688)	(6,162)
Other non-current assets	(9,108)	(2,251)
Accounts payable, accrued liabilities, and operating leases, net of right-of-use assets	(51,290)	(48,045)
Income tax liabilities	9,115	19,496
Accrued salaries, wages and employee benefits and long-term employee related benefits	(40,527)	(110,338)
Other long-term liabilities	(5,283)	(1,579)
Net cash provided by operating activities	197,883	55,822
Cash Flows from Investing Activities:		
Purchases of property, plant and equipment	(44,424)	(36,149)
Payments for business acquisition	(52,201)	—
(Payments) proceeds on settlement of forward foreign exchange contracts not designated for hedge accounting	(19,326)	55,818
Payments to acquire short-term investments	(30,121)	(99,880)
Proceeds from sale, maturity and collection of short-term investments	26,791	—
Net cash used for investing activities	(119,281)	(80,211)
Cash Flows from Financing Activities:		
Proceeds from short-term credit facilities	3,419	13,442
Repayments of short-term credit facilities	(3,878)	(12,556)
Other short-term borrowings, net	12,480	(9,422)
Proceeds from employee stock purchase plan	2,030	—
Repurchase of common stock	(30,074)	(3,088)
Repurchase of shares surrendered for tax withholdings on equity award exercises	(75,242)	(826)
Payments to noncontrolling interests	(14,825)	—
Dividend to stockholders	(31,930)	(55,000)
Other financing, net	—	(296)
Net cash used for financing activities	(138,020)	(67,746)
Effect of exchange rate changes on cash and cash equivalents and restricted cash	(1,270)	952
Net decrease in cash and cash equivalents and restricted cash	(60,688)	(91,183)
Beginning cash and cash equivalents, and restricted cash	934,753	713,698
Ending cash and cash equivalents, and restricted cash	874,065	622,515
Less: Ending restricted cash	(501)	(581)
Ending cash and cash equivalents	\$ 873,564	\$ 621,934
Noncash Investing and Financing Activity:		
Property, plant and equipment acquired and not yet paid at end of period	\$ 12,089	\$ 10,513
Property, plant and equipment additions due to build-to-suit lease transactions	—	7,842
Realized (gain) loss on foreign currency contracts not yet settled at end of period	(17,338)	51,200
Repurchase of common stock not yet settled at end of period	6,997	—
Supplemental disclosure of cash flow information:		
Cash paid for interest during the period	\$ 818	\$ 2,778
Cash paid for income taxes during the period, net of refunds	19,636	17,157

The accompanying notes are an integral part of these consolidated financial statements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Nature of Operations

Levi Strauss & Co. (the "Company") is one of the world's largest brand-name apparel companies. The Company designs, markets and sells – directly or through third parties and licensees – products that include jeans, casual and dress pants, tops, shorts, skirts, jackets, footwear and related accessories for men, women and children around the world under the Levi's®, Dockers®, Signature by Levi Strauss & Co.™ and Denizen® brands. The Company operates its business through three geographic regions: Americas, Europe and Asia.

In March 2019, the Company completed an initial public offering ("IPO") of its Class A common stock, as a result of which its Class A common stock began trading on the New York Stock Exchange under the symbol "LEVI".

Basis of Presentation and Principles of Consolidation

The unaudited consolidated financial statements of the Company and its wholly-owned and majority-owned foreign and domestic subsidiaries are prepared in conformity with generally accepted accounting principles in the United States ("U.S. GAAP") for interim financial information. In the opinion of management, all adjustments necessary for a fair statement of the financial position and the results of operations for the periods presented have been included. The unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements of the Company for the year ended November 24, 2019, included in the Company's 2019 Annual Report on Form 10-K.

The unaudited consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany transactions have been eliminated. Management believes the disclosures are adequate to make the information presented in the unaudited consolidated financial statements not misleading. The results of operations for the three months ended February 23, 2020 may not be indicative of the results to be expected for any other interim period or the year ending November 24, 2019.

The Company's fiscal year ends on the last Sunday of November in each year, although the fiscal years of certain foreign subsidiaries end on November 30. Each quarter of both fiscal years 2020 and 2019 consists of 13 weeks, with the exception of the fourth quarter of 2020, which will consist of 14 weeks. All references to years and quarters relate to fiscal years and quarters rather than calendar years and quarters.

Reclassification

Certain insignificant amounts on the consolidated balance sheets and consolidated statements of cash flow have been conformed to the February 23, 2020 presentation.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes to the consolidated financial statements. Estimates are based upon historical factors, current circumstances and the experience and judgment of the Company's management. Management evaluates its estimates and assumptions on an ongoing basis and may employ outside experts to assist in its evaluations. Changes in such estimates, based on more accurate future information, or different assumptions or conditions, may affect amounts reported in future periods.

The Jeans Company Acquisition

In December 2019, the Company completed an acquisition of all operating assets related to Levi's® and Dockers® brands from The Jeans Company ("TJC"), LS&Co's distributor in Chile, Peru and Bolivia, for \$52.2 million in cash, plus transaction costs. This includes 78 Levi's® and Dockers® retail stores and one e-commerce site, distribution with the region's leading multi-brand retailers, and the logistical operations within these markets.

The total fair value of assets acquired was \$52.2 million and include goodwill, inventory, intangible and fixed assets. The goodwill and intangibles recognized as a result of the acquisition were \$22.8 million and \$9.2 million, respectively.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

Share Repurchases

In January 2020, the Company's Board of Directors approved a share repurchase program that authorizes the repurchase of up to \$100 million of the Company's Class A common stock. During the three months ended February 23, 2020, 1.9 million shares were repurchased for \$37.0 million, plus broker's commissions, in the open market.

The Company accounts for share repurchases by charging the excess of repurchase price over the repurchased Class A common stock's par value entirely to retained earnings. All repurchased shares are retired and become authorized but unissued shares. The Company accrues for the shares purchased under the share repurchase plan based on the trade date. The Company may terminate or limit the share repurchase program at any time.

Subsequent to February 23, 2020, the Company repurchased 1.1 million shares for \$19.2 million, plus broker's commissions, in the open market, bringing year-to-date shares repurchased to 3.0 million for a total of \$56.2 million, equating to an average repurchase price of approximately \$18.73 per share. The Company has suspended its share buyback program until further notice.

Noncontrolling Interest

Noncontrolling interest includes a 16.4% minority interest of third parties in Levi Strauss Japan K.K., the Company's Japanese subsidiary.

On January 9, 2020, the Company completed an all cash tender offer for the acquisition of the remaining 16.4% minority interest shares of Levi Strauss Japan K.K.'s common stock for a total purchase price of \$13.6 million, plus transaction costs. As a result, Levi Strauss Japan K.K. has become a wholly owned subsidiary.

Changes in Accounting Principles

- In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2016-02, *Leases (Topic 842)*, which requires the identification of arrangements that should be accounted for as leases by lessees. In general, for operating or financing lease arrangements exceeding a 12-month term, a right-of-use asset and a lease obligation will be recognized on the balance sheet of the lessee while the income statement will reflect lease expense for operating leases and amortization and interest expense for financing leases. The Company has identified leases for real estate, personal property and other arrangements. The new standard is required to be applied using a modified retrospective approach with two adoption methods permissible. The Company elected the transition method that applies the new lease standard at the adoption date instead of the earliest period presented. The Company elected the practical expedient to not separate lease components from nonlease components for all leases. Additionally, the Company made an accounting policy election to keep leases with an initial 12-month term or less off of the balance sheet and recognize these lease payments within the consolidated statements of income on a straight-line basis over the term of the lease. The Company elected the package of transition practical expedients which allowed the Company to carry forward prior conclusions related to: (i) whether any expired or existing contracts contain leases, (ii) the lease classification for any expired or existing leases and (iii) initial direct costs for existing leases. The Company adopted this standard in the first quarter of fiscal 2020. Upon adoption, the Company recognized \$1.0 billion of total operating lease liabilities and \$1.0 billion of operating lease ROU assets, as well as removed \$61 million of existing deferred rent liabilities, which was recorded as an offset against the ROU assets. In addition, the Company removed \$43 million and \$53 million of existing assets and liabilities related to build-to-suit lease arrangements, respectively. The difference of \$9 million was recognize in retained earnings as of the date of initial application. The adoption of the standard did not have a material impact on the Unaudited Consolidated Statements of Income or Unaudited Consolidated Statements of Cash Flows. Refer to Note 7 for more information on the Company's lease arrangements.
- In February 2018, the FASB issued ASU 2018-02, *Income Statement - Reporting Comprehensive Income (Topic 220)*. ASU 2018-02 addresses certain stranded income tax effects in accumulated other comprehensive income (loss) resulting from the Tax Act enacted on December 22, 2017. The Company adopted this standard in the first quarter of fiscal 2020. As a result of the adoption, a \$54.4 million adjustment was included in retained earnings with an offsetting adjustment to accumulated other comprehensive income (loss).

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

Recently Issued Accounting Standards

There have been no developments to recently issued accounting standards, including the expected dates of adoption and estimated effects on the Company's consolidated financial statements and footnote disclosures, from those disclosed in the 2019 Annual Report on Form 10-K, except for the following:

First Quarter 2022

- In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes*. The ASU is intended to enhance and simplify aspects of the income tax accounting guidance in ASC 740 as part of the FASB's simplification initiative. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2020 with early adoption permitted. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements and related disclosures.

First Quarter 2023

- In March 2020, FASB issued ASU 2020-04, *Facilitation of the Effects of Reference Rate Reform on Financial Reporting*. The ASU is intended to provide temporary optional expedients and exceptions to the US GAAP guidance on contract modifications and hedge accounting to ease the financial reporting burdens related to the expected market transition from the London Interbank Offered Rate (LIBOR) and other interbank offered rates to alternative reference rates. This guidance is effective beginning on March 12, 2020, and the Company may elect to apply the amendments prospectively through December 31, 2022. The Company is currently evaluating the impact this guidance may have on its consolidated financial statements and related disclosures.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

NOTE 2: FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table presents the Company's financial instruments that are carried at fair value:

	February 23, 2020			November 24, 2019		
	Fair Value Estimated Using			Fair Value Estimated Using		
	Fair Value	Level 1 Inputs ⁽¹⁾	Level 2 Inputs ⁽²⁾	Fair Value	Level 1 Inputs ⁽¹⁾	Level 2 Inputs ⁽²⁾
(Dollars in thousands)						
Financial assets carried at fair value						
Rabbi trust assets	\$ 51,495	\$ 51,495	\$ —	\$ 49,207	\$ 49,207	\$ —
Short-term investments in marketable securities	83,978		83,978	80,741	—	80,741
Derivative instruments ⁽³⁾	22,293	—	22,293	16,323	—	16,323
Total	<u>\$ 157,766</u>	<u>\$ 51,495</u>	<u>\$ 106,271</u>	<u>\$ 146,271</u>	<u>\$ 49,207</u>	<u>\$ 97,064</u>
Financial liabilities carried at fair value						
Derivative instruments ⁽³⁾	10,848	—	10,848	8,123	—	8,123
Total	<u>\$ 10,848</u>	<u>\$ —</u>	<u>\$ 10,848</u>	<u>\$ 8,123</u>	<u>\$ —</u>	<u>\$ 8,123</u>

- (1) Fair values estimated using Level 1 inputs are inputs that consist of quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date. Rabbi trust assets consist of a diversified portfolio of equity, fixed income and other securities.
- (2) Fair values estimated using Level 2 inputs are inputs, other than quoted prices, that are observable for the asset or liability, either directly or indirectly, and include among other things, quoted prices for similar assets or liabilities in markets that are active or inactive as well as inputs other than quoted prices that are observable. Short-term investments in marketable securities consist of fixed income securities. For forward foreign exchange contracts, inputs include foreign currency exchange and interest rates and, where applicable, credit default swap prices.
- (3) The Company's cash flow hedges are subject to International Swaps and Derivatives Association, Inc. master agreements. These agreements permit the net settlement of these contracts on a per-institution basis. Refer to Note 3 for more information.

The following table presents the carrying value, including related accrued interest, and estimated fair value of the Company's financial instruments that are carried at adjusted historical cost:

	February 23, 2020		November 24, 2019	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
(Dollars in thousands)				
Financial liabilities carried at adjusted historical cost				
5.00% senior notes due 2025 ⁽¹⁾	\$ 495,999	\$ 508,203	\$ 489,299	\$ 505,757
3.375% senior notes due 2027 ⁽¹⁾	514,032	545,039	522,524	556,266
Short-term borrowings	19,371	19,371	7,621	7,621
Total	<u>\$ 1,029,402</u>	<u>\$ 1,072,613</u>	<u>\$ 1,019,444</u>	<u>\$ 1,069,644</u>

- (1) Fair values are estimated using Level 1 inputs and incorporate mid-market price quotes. Level 1 inputs are inputs that consist of quoted prices in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

NOTE 3: DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

Designated Cash Flow Hedges

The Company actively manages the risk of changes in functional currency equivalent cash flows resulting from anticipated non-functional currency denominated purchases and sales. The Company's global sourcing organization uses the U.S. dollar as its functional currency and is primarily exposed to changes in functional currency equivalent cash flows from anticipated inventory purchases, as it procures inventory on behalf of subsidiaries with Euro functional currencies. Additionally, a European subsidiary uses Euros as its functional currency and is exposed to anticipated non-functional currency denominated sales. The Company manages these risks by using currency forward contracts formally designated and effective as cash flow hedges. Hedge effectiveness is generally determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts, forward points are excluded from the determination of hedge effectiveness and are included in current Cost of sales for hedges of anticipated inventory purchases and in Net Revenues for hedges of anticipated sales on a straight-line basis over the life of the contract. In each accounting period, differences between the change in fair value of the forward points and the amount recognized on a straight-line basis is recognized in other comprehensive income. There was no hedge ineffectiveness for the quarter ended February 23, 2020.

Net Investment Hedges

The Company has designated a portion of its outstanding Euro-denominated senior notes as a net investment hedge to manage foreign currency exposures in its foreign operations.

Non-designated Cash Flow Hedges

The Company enters into derivative instruments not designated as hedges. These derivative instruments are not speculative and are used to manage the Company's exposure to certain product sourcing activities, some intercompany sales, foreign subsidiaries' royalty payments, interest payments, earnings repatriations, net investment in foreign operations and funding activities but the Company has not elected to apply hedge accounting. Changes in the fair value of derivatives not designated in hedging relationships are recorded directly in "Other income (expense), net" in the Company's consolidated statements of income.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

As of February 23, 2020, the Company had forward foreign exchange contracts derivatives that were not designated as hedges in qualifying hedging relationships, of which \$865.5 million were contracts to buy and \$93.1 million were contracts to sell various foreign currencies. These contracts are at various exchange rates and expire at various dates through May 2021. The table below provides data about the carrying values of derivative instruments and non-derivative instruments:

	February 23, 2020			November 24, 2019		
	Assets Carrying Value	(Liabilities) Carrying Value	Derivative Net Carrying Value	Assets Carrying Value	(Liabilities) Carrying Value	Derivative Net Carrying Value
(Dollars in thousands)						
Derivatives designated as hedging instruments						
Foreign exchange risk cash flow hedges ⁽¹⁾	\$ 13,636	\$ —	\$ 13,636	\$ 6,149	\$ —	\$ 6,149
Foreign exchange risk cash flow hedges ⁽²⁾	—	(6,440)	(6,440)	—	(3,809)	(3,809)
Total	<u>\$ 13,636</u>	<u>\$ (6,440)</u>		<u>\$ 6,149</u>	<u>\$ (3,809)</u>	
Derivatives not designated as hedging instruments						
Forward foreign exchange contracts ⁽¹⁾	\$ 22,293	\$ (13,636)	\$ 8,657	\$ 16,323	\$ (6,149)	\$ 10,174
Forward foreign exchange contracts ⁽²⁾	6,452	(10,860)	(4,408)	3,813	(8,127)	(4,314)
Total	<u>\$ 28,745</u>	<u>\$ (24,496)</u>		<u>\$ 20,136</u>	<u>\$ (14,276)</u>	
Non-derivatives designated as hedging instruments						
Euro senior notes	<u>\$ —</u>	<u>\$ (512,193)</u>		<u>\$ —</u>	<u>\$ (525,255)</u>	

(1) Included in "Other current assets" or "Other non-current assets" on the Company's consolidated balance sheets.

(2) Included in "Other accrued liabilities" or "Other long-term liabilities" on the Company's consolidated balance sheets.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

The Company's over-the-counter forward foreign exchange contracts are subject to International Swaps and Derivatives Association, Inc. master agreements. These agreements permit the net settlement of these contracts on a per-institution basis; however, the Company records the fair value on a gross basis on its consolidated balance sheets based on maturity dates, including those subject to master netting arrangements. The table below presents the gross and net amounts of these contracts recognized on the Company's consolidated balance sheets by type of financial instrument:

	February 23, 2020			November 24, 2019		
	Gross Amounts of Assets / (Liabilities) Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet	Net Amounts of Assets / (Liabilities)	Gross Amounts of Assets / (Liabilities) Presented in the Balance Sheet	Gross Amounts Not Offset in the Balance Sheet	Net Amounts of Assets / (Liabilities)
(Dollars in thousands)						
Foreign exchange risk contracts and forward foreign exchange contracts						
Financial assets	\$ 42,382	\$ (10,685)	\$ 31,697	\$ 21,839	\$ (10,142)	\$ 11,697
Financial liabilities	(30,937)	10,685	(20,252)	(16,290)	10,142	(6,148)
Total			<u>\$ 11,445</u>			<u>\$ 5,549</u>
Embedded derivative contracts						
Financial assets	\$ —	\$ —	\$ —	\$ 4,446	\$ —	\$ 4,446
Financial liabilities	—	—	—	(1,795)	—	(1,795)
Total			<u>\$ —</u>			<u>\$ 2,651</u>

The table below provides data about the amount of gains and losses related to derivative instruments designated as cash flow hedges and non-derivative instruments designated as net investment hedges included in "Accumulated other comprehensive loss" ("AOCI") on the Company's consolidated balance sheets:

	Amount of Gain (Loss) Recognized in OCI (Effective Portion)		Amount of Gain (Loss) Reclassified from AOCI into Net Income ⁽¹⁾	
	As of February 23, 2020	As of November 24, 2019	Three Months Ended February 23, 2020	February 24, 2019
(Dollars in thousands)				
Foreign exchange risk contracts	\$ 5,124	\$ 2,781	\$ 3,065	\$ 880
Realized forward foreign exchange swaps ⁽²⁾	4,637	4,637	—	—
Yen-denominated Eurobonds	(19,811)	(19,811)	—	—
Euro-denominated senior notes	(25,108)	(38,171)	—	—
Cumulative income taxes	14,335	25,606	—	—
Total	<u>\$ (20,823)</u>	<u>\$ (24,958)</u>		

(1) Amounts reclassified from AOCI were classified as net revenues and costs of goods sold on the consolidated statements of income.

(2) Prior to and during 2005, the Company used foreign exchange currency swaps to hedge the net investment in its foreign operations. For hedges that qualified for hedge accounting, the net gains were included in AOCI and are not reclassified to earnings until the related net investment position has been liquidated.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

Within the next 12 months, a \$4.1 million gain from cash flow hedges is expected to be reclassified from AOCI into net income.

The table below presents the effects of the Company's cash flow hedges of foreign exchange risk contracts on the Consolidated Statements of Income for the three months ended February 23, 2020:

	Three Months Ended	
	February 23, 2020	February 24, 2019
Amount of (Loss) Gain on Cash Flow Hedge Activity:	(Dollars in thousands)	
Revenues	\$ (1,245)	\$ (459)
Cost of goods sold	\$ 4,310	\$ 1,339

The table below provides data about the amount of gains and losses related to derivatives instruments included in "Other expense, net" in the Company's consolidated statements of income:

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in thousands)	
Realized (loss) gain	\$ (3,433)	\$ 4,618
Unrealized gain (loss)	1,712	(10,756)
Total	\$ (1,721)	\$ (6,138)

NOTE 4: DEBT

The following table presents the Company's debt:

	February 23, 2020	November 24, 2019
	(Dollars in thousands)	
Long-term debt		
5.00% senior notes due 2025	\$ 488,152	\$ 487,632
3.375% senior notes due 2027	506,240	519,113
Total long-term debt	\$ 994,392	\$ 1,006,745
Short-term debt		
Short-term borrowings	\$ 19,341	\$ 7,621
Total debt	\$ 1,013,733	\$ 1,014,366

Senior Revolving Credit Facility

The Company's unused availability under its senior secured revolving credit facility (the "Credit Facility") was \$819.5 million at February 23, 2020, as the Company's total availability of \$850.0 million was reduced by \$30.5 million of letters of credit and other credit usage allocated under the Credit Facility.

In early April, 2020, the Company drew down \$300 million on its Credit Facility, leaving it with unused availability of approximately \$520 million. As detailed in the Credit Facility, additional draws from the Credit Facility, to the extent they exceed certain levels based on the Company's borrowing base, could create additional restrictions on the Company, including limitations on (i) certain investment activities, (ii) payment of dividends and (iii) prepayment of certain other indebtedness, in each case without the prior written consent of the lenders.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

Interest Rates on Borrowings

The Company's weighted-average interest rate on average borrowings outstanding during the three months ended February 23, 2020 was 4.88%, as compared to 5.22% during the same period of 2019.

NOTE 5: EMPLOYEE BENEFIT PLANS

The following table summarizes the total net periodic benefit cost for the Company's defined pension plans and postretirement benefit plans:

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in thousands)	
Net periodic benefit cost:		
Pension benefits	\$ 1,704	\$ 3,977
Postretirement benefits	509	893
Net periodic benefit cost	<u>\$ 2,213</u>	<u>\$ 4,870</u>

For the three months ended February 23, 2020, total pension plan contributions were \$10.5 million.

NOTE 6: COMMITMENTS AND CONTINGENCIES

Forward Foreign Exchange Contracts

The Company uses cash flow hedge derivative instruments to manage its exposure to foreign currencies. The Company is exposed to credit loss in the event of nonperformance by the counterparties to the forward foreign exchange contracts. However, the Company believes that its exposures are appropriately diversified across counterparties and that these counterparties are creditworthy financial institutions. See Note 3 for additional information.

Other Contingencies

Litigation. In the ordinary course of business, the Company has various pending cases involving contractual matters, facility and employee-related matters, distribution matters, product liability claims, trademark infringement and other matters. The Company does not believe any of these pending legal proceedings will have a material impact on its financial condition, results of operations or cash flows.

Customs Duty Audits. The Company imports both raw materials and finished garments into all of its operating regions and as such, is subject to numerous countries' complex customs laws and regulations with respect to its import and export activity. The Company has various pending audit assessments in connection with these activities. While the Company is vigorously defending its position and does not believe any of the claims for customs duty and related charges have merit, the ultimate resolution of these assessments and legal proceedings are subject to risk and uncertainty.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

NOTE 7: LEASES

The Company primarily leases retail store space, certain distribution and warehouse facilities, office space, equipment and other non-real estate assets. The Company determines if an arrangement is a lease at inception and begins recording lease activity at the commencement date, which is generally the date on which the Company takes possession of or controls the physical use of the asset. Right-of-use assets and lease liabilities are recognized based on the present value of lease payments over the lease term with lease expense recognized on a straight-line basis. The Company's incremental borrowing rates, which are based on the information available at commencement date, are used to determine the present value of future lease payments unless the implicit rate is readily determinable. As of and for the three months ended February 23, 2020, finance leases were not a material component of the Company's lease portfolio. Lease agreements may contain rent escalation clauses, renewal or termination options, rent holidays or certain landlord incentives, including tenant improvement allowances. Right-of-use assets include amounts for scheduled rent increases and are reduced by the amount of lease incentives. The lease term includes the non-cancelable period of the lease and may include options to extend or terminate the lease when it is reasonably certain the Company will exercise the option. Certain lease agreements include variable lease payments, which are based on a percent of retail sales over specified levels or adjust periodically for inflation.

Lease expense is recognized in Selling, general and administrative expenses within the Company's consolidated statements of income, based on the underlying nature of the leased asset. For the three months ended February 23, 2020, lease expense primarily consisted of operating lease costs of \$87.1 million, including \$21.8 million primarily related to variable lease costs and an immaterial amount of short-term lease costs.

Amounts of future undiscounted cash flows related to operating lease payments over the lease term are as follows and are reconciled to the present value of the operating lease liabilities as recorded on the Company's consolidated balance sheets.

	February 23, 2020 ⁽¹⁾
	(Dollars in thousands)
2020	\$ 188,290
2021	216,259
2022	183,395
2023	147,155
2024	118,315
Thereafter	284,609
Total undiscounted future cash flows related to lease payments	1,138,023
Less: Interest	75,090
Present value of lease liabilities	\$ 1,062,933

⁽¹⁾Excludes \$5.5 million of future operating lease payments for lease agreements signed but not yet commenced.

The following table includes the weighted average remaining lease terms, in years, and the weighted average discount rate used to calculate the present value of operating lease liabilities:

	February 23, 2020
Weighted-average remaining lease term (years)	6.1
Weighted-average discount rate	2.38%

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

The table below includes supplemental cash and non-cash information related to operating leases:

	February 23, 2020
	(Dollars in thousands)
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash outflows from operating leases	\$ 53,378
Operating lease right-of-use assets obtained in exchange for new operating lease liabilities ⁽¹⁾	\$ 25,368

⁽¹⁾ Excludes the amount initially capitalized in conjunction with the adoption of Topic 842.

Amounts of minimum future annual commitments under non-cancelable operating leases and lease financing obligations in accordance with Topic 840 were as follows:

	November 24, 2019
	(Dollars in thousands)
2020	\$ 234,092
2021	203,483
2022	174,536
2023	140,278
2024	111,176
Thereafter	284,114
Total undiscounted future cash flows related to lease payments	<u>\$ 1,147,679</u>

NOTE 8: DIVIDEND

In January 2020, the Company's Board of Directors declared a cash dividend of \$0.08 per share to holders of record of its Class A and Class B common stock, at the close of business of February 12, 2020. The first dividend of \$31.9 million in total was paid in the first quarter of 2020.

In April 2020, the Company's Board of Directors declared a cash dividend of \$0.08 per share to holders of record of its Class A and Class B common stock, at the close of business on April 24, 2020, which is payable on or about May 8, 2020.

The Company does not have an established dividend policy. The Company will continue to review its ability to pay cash dividends on an ongoing basis and dividends may be declared at the discretion of the Company's Board of Directors depending upon, among other factors, the Company's financial condition and compliance with the terms of the Company's debt agreements.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

NOTE 9: ACCUMULATED OTHER COMPREHENSIVE LOSS

The following is a summary of the components of "Accumulated other comprehensive loss," net of related income taxes:

	February 23, 2020	November 24, 2019	February 24, 2019
	(Dollars in thousands)		
Pension and postretirement benefits	\$ (265,433)	\$ (220,859)	\$ (226,480)
Derivative instruments	(20,823)	(24,958)	(38,271)
Foreign currency translation losses	(174,810)	(155,841)	(145,752)
Unrealized gains on marketable securities	8,332	6,288	3,617
Accumulated other comprehensive loss	(452,734)	(395,370)	(406,886)
Accumulated other comprehensive income attributable to noncontrolling interest ⁽¹⁾	—	9,616	9,484
Accumulated other comprehensive loss attributable to Levi Strauss & Co.	\$ (452,734)	\$ (404,986)	\$ (416,370)

(1) On January 9, 2020, Company completed an all cash tender offer for the acquisition of the remaining minority interest shares of Levi Strauss Japan K.K. Refer to Note 1 for additional information.

No material amounts were reclassified out of "Accumulated other comprehensive loss" into net income other than those that pertain to the Company's derivative instruments and pension and post retirement benefit plans. Refer to Note 3 and Note 5 for additional information.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

NOTE 10: NET REVENUES

Disaggregated Revenue

The table below provides the Company's revenues disaggregated by segment and channel.

Three Months Ended February 23, 2020				
	Americas	Europe	Asia	Total
(Dollars in thousands)				
Net revenues by channel:				
Wholesale	\$ 460,866	\$ 276,955	\$ 138,503	\$ 876,324
Direct-to-consumer	284,714	235,988	109,100	629,802
Total net revenues	<u>\$ 745,580</u>	<u>\$ 512,943</u>	<u>\$ 247,603</u>	<u>\$ 1,506,126</u>

Three Months Ended February 24, 2019				
	Americas	Europe	Asia	Total
(Dollars in thousands)				
Net revenues by channel:				
Wholesale	\$ 483,801	\$ 252,933	\$ 132,575	\$ 869,309
Direct-to-consumer	233,463	211,743	119,943	565,149
Total net revenues	<u>\$ 717,264</u>	<u>\$ 464,676</u>	<u>\$ 252,518</u>	<u>\$ 1,434,458</u>

The Company did not have any material contract assets and or contract liabilities recorded in the consolidated balance sheets as of February 23, 2020 and November 24, 2019.

NOTE 11: OTHER INCOME (EXPENSE), NET

The following table summarizes significant components of "Other income (expense), net":

Three Months Ended		
	February 23, 2020	February 24, 2019
(Dollars in thousands)		
Foreign exchange management losses ⁽¹⁾	\$ (1,721)	\$ (6,138)
Foreign currency transaction gains	694	2,621
Interest income	4,211	4,011
Investment income	741	1,007
Other, net	(1,225)	(3,147)
Total other income (expense), net	<u>\$ 2,700</u>	<u>\$ (1,646)</u>

(1) Gains and losses on forward foreign exchange contracts primarily resulted from currency fluctuations relative to negotiated contract rates. Losses in the three-month periods ended February 23, 2020 and February 24, 2019 were primarily due to unfavorable currency fluctuations relative to negotiated contract rates on positions to sell the Mexican Peso.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

NOTE 12: INCOME TAXES

The effective income tax rate was 7.4% for the three months ended February 23, 2020, compared to 19.4% for the same prior-year period. The decrease in the effective tax rate was primarily driven by 12.8% (\$21.0 million) in discrete tax benefits attributable to employees exercising stock-based equity awards in 2020.

NOTE 13: EARNINGS PER SHARE ATTRIBUTABLE TO COMMON STOCKHOLDERS

The following table sets forth the computation of the Company's basic and diluted earnings per share:

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in thousands, except per share amounts)	
Numerator:		
Net income attributable to Levi Strauss & Co.	\$ 152,689	\$ 146,577
Denominator:		
Weighted-average common shares outstanding - basic	396,216,057	377,077,111
Dilutive effect of stock awards	13,852,316	16,157,714
Weighted-average common shares outstanding - diluted	410,068,373	393,234,825
Earnings per common share attributable to common stockholders:		
Basic	\$ 0.39	\$ 0.39
Diluted	\$ 0.37	\$ 0.37
Anti-dilutive securities excluded from calculation of diluted earnings per share attributable to common stockholders	787,917	974,070

NOTE 14: RELATED PARTIES

Charles V. Bergh, President and Chief Executive Officer, and Marc Rosen, Executive Vice President and President of Levi Strauss Americas, are members of the Board of Directors of the Levi Strauss Foundation, which is not a consolidated entity of the Company. Seth R. Jaffe, Executive Vice President and General Counsel, is Vice President of the Levi Strauss Foundation. During the three months ended February 23, 2020, the Company donated \$8.7 million to the Levi Strauss Foundation as compared to \$8.5 million for the same prior-year period.

LEVI STRAUSS & CO. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (continued)
FOR THE QUARTERLY PERIOD ENDED FEBRUARY 23, 2020

NOTE 15: BUSINESS SEGMENT INFORMATION

The Company manages its business according to three regional segments: the Americas, Europe and Asia. The Company considers its chief executive officer to be the Company's chief operating decision maker. The Company's chief operating decision maker manages business operations, evaluates performance and allocates resources based on the regional segments' net revenues and operating income.

Business segment information for the Company is as follows:

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in thousands)	
Net revenues:		
Americas	\$ 745,580	\$ 717,264
Europe	512,943	464,676
Asia	247,603	252,518
Total net revenues	<u>\$ 1,506,126</u>	<u>\$ 1,434,458</u>
Operating income:		
Americas	\$ 124,039	\$ 123,656
Europe	132,436	121,624
Asia	32,668	42,965
Regional operating income	289,143	288,245
Corporate expenses	110,361	87,333
Total operating income	178,782	200,912
Interest expense	(16,654)	(17,544)
Other income (expense), net	2,700	(1,646)
Income before income taxes	<u>\$ 164,828</u>	<u>\$ 181,722</u>

NOTE 16: SUBSEQUENT EVENTS

On March 11, 2020, the World Health Organization declared the novel strain of coronavirus (COVID-19) a global pandemic and recommended containment and mitigation measures worldwide. As of the date of this filing, many of our company-operated, shop in shops, and franchise stores globally have been impacted by temporary closures, reduced store hours or reduced traffic. While this is expected to be temporary, the current circumstances are dynamic and the impacts of COVID-19 on the Company's business operations, including the duration and impact on overall customer demand, cannot be reasonably estimated at this time. As a result, the Company could experience material impacts including, but not limited to, charges from potential adjustments of the carrying amount of inventory and receivables, asset impairment charges, deferred tax valuation allowances and changes in the effectiveness of the Company's hedging instruments. The Company anticipates this may have a material impact on the business, results of operations and cash flows in 2020.

In April, 2020, as a precautionary measure to maximize liquidity and to increase available cash on hand, the Company drew down \$300 million on its senior secured revolving credit facility. The proceeds will be available to be used for working capital, general corporate or other purposes. In addition, the Company is reducing discretionary spending, revisiting investment strategies, suspending the share buyback program until further notice, and reducing payroll costs, including through employee furloughs and pay cuts.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

You should read the following discussion and analysis of our financial condition and results of operations together with our unaudited consolidated financial statements and related notes thereto included in Part I, Item 1 of this Quarterly Report and with our audited financial statements and related notes in our Annual Report on Form 10-K for the year ended November 24, 2019, filed with the Securities and Exchange Commission on January 30, 2020. We use a 52- or 53-week fiscal year, with each fiscal year ending on the Sunday in November that is closest to November 30 of that year. See "-Financial Information Presentation - Fiscal Year."

Non-GAAP Financial Measures

To supplement our consolidated financial statements prepared and presented in accordance with generally accepted accounting principles in the United States ("GAAP"), we use certain non-GAAP financial measures throughout this Quarterly Report, as described further below, to provide investors with additional useful information about our financial performance, to enhance the overall understanding of our past performance and future prospects and to allow for greater transparency with respect to important metrics used by our management for financial and operational decision-making. We are presenting these non-GAAP financial measures to assist investors in seeing our financial performance from management's view and because we believe they provide an additional tool for investors to use in comparing our core financial performance over multiple periods with other companies in our industry.

However, non-GAAP financial measures have limitations in their usefulness to investors because they have no standardized meaning prescribed by GAAP and are not prepared under any comprehensive set of accounting rules or principles. In addition, non-GAAP financial measures may be calculated differently from, and therefore may not be directly comparable to, similarly titled measures used by other companies. As a result, non-GAAP financial measures should be viewed as supplementing, and not as an alternative or substitute for, our consolidated financial statements prepared and presented in accordance with GAAP.

Overview

We are an iconic American company with a rich history of profitable growth, quality, innovation and corporate citizenship. Our story began in San Francisco, California, in 1853 as a wholesale dry goods business. We invented the blue jean 20 years later. Today we design, market and sell products that include jeans, casual and dress pants, tops, shorts, skirts, jackets, footwear and related accessories for men, women and children around the world under our Levi's, Dockers, Signature by Levi Strauss & Co. and Denizen brands.

Our business is operated through three geographic regions that comprise our three reporting segments: Americas, Europe and Asia (which includes the Middle East and Africa). We service consumers through our global infrastructure, developing, sourcing and marketing our products around the world.

Our iconic, enduring brands are brought to life every day around the world by our talented and creative employees and partners. The Levi's brand epitomizes classic, authentic American style and effortless cool. We have cultivated Levi's as a lifestyle brand that is inclusive and democratic in the eyes of consumers while offering products that feel exclusive, personalized and original. This approach has enabled the Levi's brand to evolve with the times and continually reach a new, younger audience, while our rich heritage continues to drive relevance and appeal across demographics. The Dockers brand helped drive "Casual Friday" in the 1990s and has been a cornerstone of casual menswear for more than 30 years. The Signature by Levi Strauss & Co. and Denizen brands, which we developed for value-conscious consumers, offer quality craftsmanship and great fit and style at affordable prices.

We recognize wholesale revenue from sales of our products through third-party retailers such as department stores, specialty retailers, third-party e-commerce sites and franchise locations dedicated to our brands. We also sell our products directly to consumers ("direct-to-consumer" or "DTC") through a variety of formats, including our own company-operated mainline and outlet stores, company-operated e-commerce sites and select shop-in-shops that we operate within department stores and other third-party retail locations. As of February 23, 2020, our products were sold in over 50,000 retail locations in more than 110 countries, including approximately 3,200 brand-dedicated stores and shop-in-shops. As of February 23, 2020, we had 977 company-operated stores located in 34 countries and approximately 500 company-operated shop-in-shops. The remainder of our brand-dedicated stores and shop-in-shops were operated by franchisees and other partners.

Our Europe and Asia businesses, collectively, contributed 50% of our net revenues and 57% of our regional operating income in the first three months of both 2020 and 2019. Sales of Levi's brand products represented 88% of our total net sales in the first three months of both 2020 and 2019.

Our wholesale channel generated 58% and 61% of our net revenues in the first three months of 2020 and 2019, respectively. Our DTC channel generated 42% and 39% of our net revenues in the first three months of 2020 and 2019, respectively, with sales through our company operated e-commerce sites representing 16% of DTC channel net revenues in the first three months of both 2020 and 2019 and 7% and 6% of total net revenues in the first three months of 2020 and 2019, respectively.

Impact of COVID-19 on Our Business

Our global operations expose us to risks associated with public health crises, such as pandemics and epidemics, which could harm our business and cause operational results to suffer. The recent COVID-19 pandemic has impacted our business operations and results of operations for the first quarter of 2020 as described in more detail under “Results of Operations for Three Months Ended February 23, 2020, as Compared to Comparable Period in 2019” below, in particular due to decreased foot traffic and mid-quarter store closures in mainland China. We expect the evolving COVID-19 pandemic to continue to have an adverse impact on our results of operations, due to further spread of the disease in other regions and potential disruption from any supply chain impacts. While the ultimate health and economic impact of the COVID-19 pandemic is highly uncertain, we expect that our business operations and results of operations, including our net revenues, earnings and cash flows, will be materially adversely impacted for at least the balance of 2020, including as a result of:

- Temporary closure of a significant number of our owned and operated retail stores, which started in mainland China midway through the first fiscal quarter, and which has expanded globally;
- Decreased foot traffic in retail stores;
- Consumer confidence and consumer spending habits, including spending for the merchandise that we sell and negative trends in consumer purchasing patterns due to consumers’ disposable income, credit availability and debt levels;
- Decreased discretionary DTC channel spending independent of store closures;
- Decreased wholesale channel spending and increased likelihood of wholesale customer failure;
- Possible disruption to the supply chain caused by distribution and other logistical issues;
- Decreased productivity due to travel ban, work-from-home policies or shelter-in-place orders;
- A slowdown in the U.S. economy, and uncertain global economic outlook or a credit crisis.

We are focused on navigating these recent challenges presented by COVID-19 through preserving our liquidity and managing our cash flow through taking preemptive action to enhance our ability to meet our short-term liquidity needs. Such actions include, but are not limited to, reducing our discretionary spending, revisiting our investment strategies, suspending our share buyback program until further notice, and reducing payroll costs, including through employee furloughs and pay cuts.

Other Factors Affecting Our Business

We believe the other key business and marketplace factors, independent of the health and economic impact of the COVID-19 pandemic, that are impacting our business include the following:

- Other factors that impact consumer discretionary spending continue to create a complex and challenging retail environment for us and our customers, characterized by unpredictable traffic patterns and a general promotional environment. In developed economies, mixed real wage growth and shifting consumer spending also continue to pressure global discretionary spending. Consumers continue to focus on value pricing and convenience with the off-price retail channel remaining strong and increased expectations for real-time delivery.
- The diversification of our business model across regions, channels, brands and categories affects our gross margin. For example, if our sales in higher gross margin business regions, channels, brands and categories grow at a faster rate than in our lower gross margin business regions, channels, brands and categories, we would expect a favorable impact to aggregate gross margin over time. Gross margin in Europe is generally higher than in our other two regional operating segments. DTC sales generally have higher gross margins than sales through third parties, although DTC sales also typically have higher selling expenses. Value brands, which are focused on the value-conscious consumer, generally generate lower gross margin. Enhancements to our existing product offerings, or our expansion into new products categories, may also impact our future gross margin.
- More competitors are seeking growth globally, thereby increasing competition across regions. Some of these competitors are entering markets where we already have a mature business such as the United States, Mexico, Western Europe and Japan, and may provide consumers discretionary purchase alternatives or lower-priced apparel offerings.
- Wholesaler/retailer dynamics and wholesale channels remain challenged by mixed growth prospects due to increased competition from e-commerce shopping, pricing transparency enabled by the proliferation of online technologies, and

vertically-integrated specialty stores. Retailers, including our top customers, have in the past and may in the future decide to consolidate, undergo restructurings or rationalize their stores, which could result in a reduction in the number of stores that carry our products.

- Many apparel companies that have traditionally relied on wholesale distribution channels have invested in expanding their own retail store and e-commerce distribution and consumer-facing technologies, which has increased competition in the retail market.
- Competition for, and price volatility of, resources throughout the supply chain have increased, causing us and other apparel manufacturers to continue to seek alternative sourcing channels and create new efficiencies in our global supply chain. Trends affecting the supply chain include the proliferation of lower-cost sourcing alternatives, resulting in reduced barriers to entry for new competitors, and the impact of fluctuating prices of labor and raw materials as well as the consolidation of suppliers. Trends such as these can bring additional pressure on us and other wholesalers and retailers to shorten lead-times, reduce costs and raise product prices.
- Foreign currencies continue to be volatile. Significant fluctuations of the U.S. Dollar against various foreign currencies, including the Euro, British Pound and Mexican Peso, will impact our financial results, affecting translation, revenue, operating margins and net income.
- The current environment has introduced greater uncertainty with respect to potential tax and trade regulations. The current domestic and international political environment, including changes to other U.S. policies related to global trade and tariffs, have resulted in uncertainty surrounding the future state of the global economy. Such changes may require us to modify our current sourcing practices, which may impact our product costs, and, if not mitigated, could have a material adverse effect on our business and results of operations.

These factors contribute to a global market environment of intense competition, constant product innovation and continuing cost pressure, and combine with the continuing global economic conditions to create a challenging commercial and economic environment. We evaluate these factors as we develop and execute our strategies.

Effects of Inflation

We believe inflation in the regions where most of our sales occur has not had a significant effect on our net revenues or profitability.

Our First Quarter 2020 Results

- *Net revenues.* Consolidated net revenues increased 5.0% on a reported basis and 5.8% on a constant-currency basis compared to the first quarter of 2019. The increase was primarily driven by an increase in DTC net revenues; as the benefit of a Black Friday week was included in the first quarter of 2020, and expansion and performance of the retail network and e-commerce, drove further growth. Revenue growth was partially offset by an estimated \$20.0 million adverse impact from store closures and reduced traffic resulting from the COVID-19 outbreak in Asia.
- *Operating income.* Compared to the first quarter of 2019, consolidated operating income decreased 11.0% and operating margin decreased to 11.9%, as higher net revenues and gross margin expansion were offset by higher selling, general and administrative expenses ("SG&A") associated with expansion of our company-operated retail network, higher advertising and other administration expenses.
- *Net income.* Compared to the first quarter of 2019, consolidated net income increased to \$152.7 million from \$146.5 million, primarily due to a decrease in income tax expense driven by a \$21.0 million discrete tax benefit attributable to employees exercising stock-based equity awards in 2020, offset by the decrease in operating income described above.
- *Adjusted EBIT.* Compared to the first quarter of 2019, adjusted EBIT decreased 8.2% as a result of higher SG&A expenses in the 2020 quarter associated with expansion of our company-operated retail network. As a result, adjusted EBIT margin was 12.6%, 180 basis points lower than the first quarter of 2019 on a reported basis, and 170 basis points lower than the first quarter of 2019 on a constant-currency basis.
- *Adjusted Net Income.* Compared to the first quarter of 2019, adjusted net income increased 7.6%, primarily due to a decrease in income tax expense driven by a \$21.0 million discrete tax benefit attributable to employees exercising stock-based equity awards in 2020, offset by the decrease in operating income described above.
- *Diluted earnings per share.* Compared to the first quarter of 2019, diluted earnings per share were flat at \$0.37 as higher net income was offset by an increase in shares outstanding that was primarily a result of our initial public offering of Class A common stock in March 2019 (our "IPO").

Table of Contents

- *Adjusted diluted earnings per share.* Compared to the first quarter of 2019, adjusted diluted earnings per share increased from \$0.38 to \$0.40 due to an increase in adjusted net income partially offset by an increase in shares outstanding that was primarily a result of our IPO.

Financial Information Presentation

Fiscal year. We use a 52- or 53- week fiscal year, with each fiscal year ending on the Sunday in November that is closest to November 30 of that year. Certain of our foreign subsidiaries have fiscal years ending November 30. Each fiscal year generally consists of four 13-week quarters, with each quarter ending on the last Sunday of the last month of that quarter. Each quarter of fiscal years 2020 and 2019 consists of 13 weeks, with the exception of the fourth quarter of 2020, which consists of 14 weeks.

Segments. We manage our business according to three regional segments: the Americas, Europe and Asia. Our Asia segment includes the Middle East and Africa.

Classification. Our classification of certain significant revenues and expenses reflects the following:

- Net revenues comprise net sales and licensing revenues. Net sales include sales of products to wholesale customers, including franchised stores, and direct sales to consumers at our company-operated stores and shop-in-shops located within department stores and other third-party locations, as well as company-operated e-commerce sites. Net revenues include discounts, allowances for estimated returns and incentives. Licensing revenues, which include revenues from the use of our trademarks in connection with the manufacturing, advertising and distribution of trademarked products by third-party licensees, are earned and recognized as products are sold by licensees based on royalty rates as set forth in the applicable licensing agreements.
- Cost of goods sold primarily comprises product costs, labor and related overhead, sourcing costs, inbound freight, internal transfers and the cost of operating our remaining manufacturing facilities, including the related depreciation expense. On both a reported and constant-currency basis, cost of goods sold reflects the transactional currency impact resulting from the purchase of products in a currency other than the functional currency.
- Selling expenses include, among other things, all occupancy costs and depreciation associated with our company-operated stores and commissions associated with our company-operated shop-in-shops, as well as costs associated with our e-commerce operations.
- We reflect substantially all distribution costs in SG&A, including costs related to receiving and inspection at distribution centers, warehousing, shipping to our customers, handling, and certain other activities associated with our distribution network.

Results of Operations for Three Months Ended February 23, 2020, as Compared to Comparable Period in 2019

The following table presents, for the periods indicated, our consolidated statements of income, the changes in these items from period to period and these items expressed as a percentage of net revenues:

	Three Months Ended				
	February 23, 2020	February 24, 2019	% Increase (Decrease)	February 23, 2020 % of Net Revenues	February 24, 2019 % of Net Revenues
(Dollars and shares in millions, except per share amounts)					
Net revenues	\$ 1,506.1	\$ 1,434.5	5.0 %	100.0 %	100.0 %
Cost of goods sold	666.8	651.7	2.3 %	44.3 %	45.4 %
Gross profit	839.3	782.8	7.2 %	55.7 %	54.6 %
Selling, general and administrative expenses	660.5	581.9	13.5 %	43.9 %	40.6 %
Operating income	178.8	200.9	(11.0)%	11.9 %	14.0 %
Interest expense	(16.7)	(17.5)	(4.6)%	(1.1)%	(1.2)%
Other income (expense), net	2.7	(1.6)	*	0.2 %	(0.1)%
Income before income taxes	164.8	181.8	(9.4)%	10.9 %	12.7 %
Income tax expense	12.1	35.3	(65.7)%	0.8 %	2.5 %
Net income	152.7	146.5	4.2 %	10.1 %	10.2 %
Net loss attributable to noncontrolling interest	—	0.1	(100.0)%	—	—
Net income attributable to Levi Strauss & Co.	\$ 152.7	\$ 146.6	4.2 %	10.1 %	10.2 %
Earnings per common share attributable to common stockholders:					
Basic	\$ 0.39	\$ 0.39	— %	*	*
Diluted	\$ 0.37	\$ 0.37	— %	*	*
Weighted-average common shares outstanding:					
Basic	396.2	377.1	5.1 %	*	*
Diluted	410.1	393.2	4.3 %	*	*

* Not meaningful

Net revenues

The following table presents net revenues by reporting segment for the periods indicated and the changes in net revenues by reporting segment on both reported and constant-currency basis from period to period.

	Three Months Ended			
	February 23, 2020	February 24, 2019	% Increase (Decrease)	
			As	Constant
			Reported	Currency
(Dollars in millions)				
Net revenues:				
Americas	\$ 745.6	\$ 717.3	3.9 %	3.7 %
Europe	512.9	464.7	10.4 %	12.9 %
Asia	247.6	252.5	(1.9)%	(1.2)%
Total net revenues	\$ 1,506.1	\$ 1,434.5	5.0 %	5.8 %

Total net revenues increased on both a reported and constant-currency basis for the three-month period ended February 23, 2020, as compared to the same period in 2019.

Americas. On both a reported and constant-currency basis, net revenues in our Americas region increased for the three-month period ended February 23, 2020, with currency translation affecting net revenues favorably by approximately \$2 million.

The increase in net revenues for the three-month period ended February 23, 2020 was primarily driven by the inclusion of non-comparable Black Friday week results in the 2020 period and revenues from our newly acquired South American distributor. DTC net revenues, which includes both same store and new store sales, grew as compared to the 2019 period, as we benefited from 78 more stores at the end of the first quarter of 2020 versus the first quarter of 2019. This growth was more than offset by a decline in wholesale revenue, primarily within the U.S. and across our Levi's and Docker's brands, as a result of the continued softening of the overall wholesale environment, including the impact of financially troubled retailers and increased door closures since a year ago.

Europe. Net revenues in Europe increased on both a reported and constant-currency basis for the three-month period ended February 23, 2020, with currency translation affecting net revenues unfavorably by approximately \$10 million.

Constant-currency net revenues increased for the three-month period ended February 23, 2020 due to growth in net revenues in both the DTC and wholesale channels. Revenue growth was broad-based across genders and product categories. Additionally, growth in DTC revenue was driven by growth and expansion of our retail network and outlets, including the benefit of a Black Friday week, as we benefited from 25 more stores in operation at the end of the first quarter of 2020 versus the first quarter of 2019.

Asia. Net revenues in Asia decreased on both a reported and constant-currency basis for the three-month period ended February 23, 2020, with currency affecting net revenues unfavorably by approximately \$2 million.

Excluding the effects of currency, the decrease in net revenues for the three-month periods ended February 23, 2020 was due to an estimated \$20.0 million adverse impact of the recent COVID-19 outbreak that impacted our China business as well as neighboring countries, as we had to temporarily close many of our stores midway through the quarter. This more than offset growth in our wholesale business as well as the expansion within our company-operated retail network, as we benefited from 42 more stores at the end of the first quarter of 2020 versus the first quarter of 2019.

Gross profit

The following table shows consolidated gross profit and gross margin for the periods indicated and the changes in these items from period to period:

	Three Months Ended		
	February 23, 2020	February 24, 2019	% Increase
	(Dollars in millions)		
Net revenues	\$ 1,506.1	\$ 1,434.5	5.0%
Cost of goods sold	666.8	651.7	2.3%
Gross profit	<u>\$ 839.3</u>	<u>\$ 782.8</u>	<u>7.2%</u>
Gross margin	55.7%	54.6%	

Currency translation unfavorably impacted gross profit by approximately \$6 million for the three-month period ended February 23, 2020. For the three-month period ended February 23, 2020, gross margin increased primarily due to price increases implemented in the second half of the prior year across all three regions and both channels coupled with revenue growth within our company-operated retail network, including the benefit of a Black Friday week in the current year.

Selling, general and administrative expenses

The following table shows SG&A for the periods indicated, the changes in these items from period to period and these items expressed as a percentage of net revenues:

	Three Months Ended				
	February 23, 2020	February 24, 2019	% Increase	February 23, 2020 % of Net Revenues	February 24, 2019 % of Net Revenues
	(Dollars in millions)				
Selling	\$ 307.7	\$ 278.4	10.5%	20.4%	19.4%
Advertising and promotion	89.1	72.5	22.9%	5.9%	5.1%
Administration	115.7	94.4	22.6%	7.7%	6.6%
Other	148.0	136.6	8.3%	9.8%	9.5%
Total SG&A	<u>\$ 660.5</u>	<u>\$ 581.9</u>	<u>13.5%</u>	<u>43.9%</u>	<u>40.6%</u>

Currency impacted SG&A favorably by approximately \$3 million for the three-month period ended February 23, 2020.

Selling. Currency translation impacted selling expenses favorably by approximately \$2 million for the three-month period ended February 23, 2020. Higher selling expenses primarily reflected costs associated with the growth and expansion of our DTC business, including increased investment in new company-operated stores. We had 145 more company-operated stores at the end of the first quarter of 2020 than we did at the end of the first quarter of 2019.

Advertising and promotion. Currency translation did not have a significant impact on advertising and promotion expenses for the three-month period ended February 23, 2020. Advertising and promotion expenses increased due to more media spend in the first quarter of 2020 to support growth as well as from bringing spend forward into the first part of the year in an effort to smooth out advertising spend.

Administration. Administration expenses include functional administrative and organization costs. Currency translation did not have a significant impact on administration expenses for the three-month period ended February 23, 2020. Administration costs increased primarily reflecting higher stock-based incentive compensation including the change in timing for recording employer payroll taxes for new equity-settled awards as compared to the same three-month period in the prior year.

Other. Other costs includes distribution, information resources and marketing organization costs. Currency translation did not have a significant impact on other costs for the three-month period ended February 23, 2020. For the three-month period ended February 23, 2020 the increase in other costs was primarily due to an increase in information technology expenses, which reflect critical investments towards expanding our omni-channel capabilities as well as initial investments in a new enterprise resource planning system.

Operating income

The following table shows operating income by reporting segment and corporate expenses for the periods indicated, the changes in these items from period to period and these items expressed as a percentage of net revenues:

	Three Months Ended				
	February 23, 2020	February 24, 2019	% Increase (Decrease)	February 23, 2020 % of Net Revenues	February 24, 2019 % of Net Revenues
(Dollars in millions)					
Operating income:					
Americas	\$ 124.0	\$ 123.7	0.2 %	16.6%	17.2%
Europe	132.4	121.6	8.9 %	25.8%	26.2%
Asia	32.7	43.0	(24.0)%	13.2%	17.0%
Total regional operating income	289.1	288.3	0.3 %	19.2% *	20.1% *
Corporate expenses	110.3	87.4	26.2 %	7.3% *	6.1% *
Total operating income	\$ 178.8	\$ 200.9	(11.0)%	11.9% *	14.0% *
Operating margin	11.9%	14.0%			

* Percentage of consolidated net revenues

Currency translation unfavorably affected total operating income by approximately \$3 million for the three-month period ended February 23, 2020.

Regional operating income.

- *Americas.* Currency translation did not have a significant impact for the three-month period ended February 23, 2020. Operating income for the three-month period ended February 23, 2020 was flat as compared to the comparable period in the prior year primarily due to an increase in net revenues and gross margin offset by higher SG&A, mainly to support growth across our DTC channel. The decrease in operating income as a percent of net revenues is due to increased spending on advertising and promotion during the quarter.
- *Europe.* Currency translation had an unfavorable impact of approximately \$4 million for the three-month period ended February 23, 2020. The increase in operating income was due to higher net revenues across all channels, partially offset by higher selling costs to support store expansion.
- *Asia.* Currency translation did not have a significant impact for the three-month period ended February 23, 2020. The decrease in operating income was primarily due to an approximate \$10.0 million adverse impact from store closures and reduced traffic resulting from the recent COVID-19 outbreak as well as higher selling expenses incurred to support retail expansion and phasing of advertising and promotion spend versus the prior year.

Corporate. Corporate expenses represent costs that management does not attribute to any of our regional operating segments. Included in corporate expenses are other corporate staff costs and costs associated with our global inventory sourcing organization, which are reported as a component of consolidated gross margin. Currency translation did not have a significant impact on corporate expenses for the three-month period ended February 23, 2020. The increase in the corporate expenses for the three-month period ended February 23, 2020 was primarily due to an increase in administration expenses related primarily to stock-based compensation as well as an increase in information technology expenses to expand and support our technology infrastructure.

Interest expense

Interest expense was \$16.7 million for the three-month periods ended February 23, 2020, as compared to \$17.5 million for the same prior-year period. The decrease in interest expense was primarily related to a reduction in short-term borrowings.

Our weighted-average interest rate on average borrowings outstanding during the three months ended February 23, 2020 was 4.88%, as compared to 5.22% during the comparable period in 2019.

Other income (expense), net

Other income (expense), net, primarily consists of foreign exchange management activities and transactions. For the three-month periods ended February 23, 2020, we recorded income of \$2.7 million, as compared to expense of \$1.6 million for the same prior-year period. The income in the three-month period ended February 23, 2020 is primarily from investment interest generated from money market funds and short term investments.

Income tax expense

The effective income tax rate was 7.4% for the three months ended February 23, 2020, compared to 19.4% for the same prior-year period. The decrease in the effective tax rate was primarily driven by a 12.8% (\$21.0 million) discrete tax benefit attributable to employees exercising stock-based equity awards in 2020.

Liquidity and Capital Resources

Liquidity outlook

We believe we will have adequate liquidity over the next 12 months to operate our business and to meet our cash requirements. As of February 23, 2020, we had cash and cash equivalents totaling approximately \$873.6 million, short-term investments of \$84.0 million and unused availability under the credit facility of \$819.5 million, resulting in a total liquidity position of approximately \$1.8 billion. We are also taking preemptive action to preserve our liquidity and manage our cash flow, such as reducing our discretionary spending, revisiting our investment strategies, suspending our share buyback program until further notice, and reducing payroll costs, including through employee furloughs and pay cuts.

In April, 2020, as a precautionary measure to maximize our liquidity and to increase our available cash on hand, we drew down \$300 million on our senior secured revolving credit facility. The proceeds will be available to be used for working capital, general corporate or other purposes.

While the impact and duration of COVID-19 on our business is currently uncertain, the situation is expected to be temporary. In the longer term, we remain committed to increasing total shareholder returns through our three capital allocation priorities: (1) to invest in opportunities and initiatives to grow our business organically; (2) to return capital to our stockholders in the form of cash dividends, as well as stock repurchases to offset dilution that would otherwise be introduced from stock-based incentive compensation grants; and (3) to pursue acquisitions that support our current strategies. Future determinations regarding the declaration and payment of dividends, if any, will be at the discretion of our board of directors and will depend on then-existing conditions, including our results of operations, payout ratio, capital requirements, financial condition, prospects, contractual arrangements, any limitations on payment of dividends present in our current and future debt agreements and other factors that our board of directors may deem relevant.

Cash sources

We have historically relied primarily on cash flows from operations, borrowings under credit facilities, issuances of notes and other forms of debt financing. We regularly explore financing and debt reduction alternatives, including new credit agreements, unsecured and secured note issuances, equity financing, equipment and real estate financing, securitizations and asset sales.

We are party to a second amended and restated credit agreement that provides for a senior secured revolving credit facility ("credit facility"). Our credit facility is an asset-based facility, in which the borrowing availability is primarily based on the value of our U.S. Levi's® trademarks and the levels of accounts receivable and inventory in the United States and Canada. The maximum availability under our credit facility is \$850 million, of which \$800 million is available to us for revolving loans in U.S. Dollars and \$50 million is available to us for revolving loans either in U.S. Dollars or Canadian Dollars.

As of February 23, 2020, we did not have any borrowings under the credit facility, unused availability under the credit facility was \$819.5 million, and our total availability of \$850 million, based on collateral levels as defined by the agreement, was reduced by \$30.5 million of other credit-related instruments.

As of February 23, 2020, we had cash and cash equivalents totaling approximately \$873.6 million and short-term investments of \$84.0 million resulting in a total liquidity position (unused availability and cash and cash equivalents and short-term investments) of approximately \$1.8 billion.

Cash uses

Our principal cash requirements include working capital, capital expenditures, payments of principal and interest on our debt, payments of taxes, contributions to our pension plans and payments for postretirement health benefit plans, settlement of shares issued under our equity incentive plans and, if market conditions warrant, occasional investments in, or acquisitions of, business ventures in our line of business. In addition, we regularly evaluate our ability to pay dividends or repurchase stock, all consistent with the terms of our debt agreements.

In December 2019, we completed an acquisition for all operating assets related to Levi's® and Dockers® brands from The Jeans Company ("TJC"), our distributor in Chile, Peru and Bolivia, for \$52 million, plus transaction costs. This includes 78 Levi's® and Dockers® retail stores and one e-commerce site, distribution with the region's leading multi-brand retailers, and the logistical operations in these markets.

In January 2020, our board of directors declared a cash dividend of \$0.08 per share to holders of record of our Class A and Class B common stock at the close of business on February 12, 2020 and approved a share repurchase program that authorizes the repurchase of up to \$100 million of our Class A common stock. During the three months ended February 23, 2020, a \$31.9 million dividend was paid to shareholders and 1.9 million shares were repurchased for \$37.0 million, plus broker's commissions, in the open market.

[Table of Contents](#)

Subsequent to February 23, 2020, the Company repurchased 1.1 million shares for \$19.2 million, plus broker's commissions, in the open market, bringing year-to-date shares repurchased to 3.0 million for a total of \$56.2 million, equating to an average repurchase price of approximately \$18.73 per share. The Company has suspended its share buyback program until further notice.

In April 2020, our board of directors declared a cash dividend of \$0.08 per share to holders of record of our Class A and Class B common stock at the close of business on April 24, 2020, which is expected to be paid on or about May 8, 2020.

Cash flows

The following table summarizes, for the periods indicated, selected items in our consolidated statements of cash flows:

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in millions)	
Cash provided by operating activities	\$ 197.9	\$ 55.8
Cash used for investing activities	(119.3)	(80.2)
Cash used for financing activities	(138.0)	(67.7)
Cash and cash equivalents at period end	873.6	621.9

Cash flows from operating activities

Cash provided by operating activities was \$197.9 million for the three-month period ended February 23, 2020, as compared to \$55.8 million for the comparable period in 2019. The increase primarily reflects higher cash received from customers as well as lower payments for employee incentive compensation, partially offset by higher payments for SG&A expenses to support our growth.

Cash flows from investing activities

Cash used for investing activities was \$119.3 million for the three-month period ended February 23, 2020, as compared to \$80.2 million for the comparable period in 2019. The increase in cash used for investing activities is due to an acquisition of operating assets in Chile, Peru and Bolivia, the timing of foreign currency contract settlements, and an increase in payments for capital expenditures, partially offset by a decrease in short-term investment activities as 2019 included the initial acquisitions of short-term investments.

Cash flows from financing activities

Cash used for financing activities was \$138.0 million for the three-month period in 2020, as compared to \$67.7 million for the comparable period in 2019. Cash used in 2020 primarily reflects payments of \$30.1 million for common stock repurchases, \$75.2 million for withholding tax on cashless equity award exercises, payment of a \$31.9 million cash dividend and payments of \$14.8 million for noncontrolling interest buyback. Cash used in 2019 primarily reflects the payment of a \$55.0 million cash dividend.

Indebtedness

Of our total debt of \$1.0 billion as of February 23, 2020, we had fixed-rate debt of \$1.0 billion (98.8% of total debt), net of capitalized debt issuance costs, and variable-rate debt of \$12.5 million (1.2% of total debt). As of February 23, 2020, our required aggregate debt principal payments on our unsecured long-term debt were \$1.0 billion in years after 2024. Short-term borrowings of \$19.3 million at various foreign subsidiaries were expected to be either paid over the next twelve months or refinanced at the end of their applicable terms.

Our long-term debt agreements contain customary covenants restricting our activities as well as those of our subsidiaries. We were in compliance with all of these covenants as of February 23, 2020.

Non-GAAP Financial Measures

Adjusted SG&A, Adjusted EBIT, Adjusted EBIT Margin, Adjusted EBITDA, Adjusted Net Income, Adjusted Net Income Margin and Adjusted Diluted Earnings per Share

For the three months ended February 23, 2020 and the comparable period in 2019, we define the following non-GAAP financial measures as follows:

Table of Contents

- Adjusted SG&A, as SG&A less changes in fair value on cash-settled stock-based compensation, and restructuring and related charges, severance and other, net;
- Adjusted EBIT, as net income excluding income tax expense, interest expense, other (income) expense, net, impact of changes in fair value on cash-settled stock-based compensation, and restructuring and related charges, severance and other, net, and Adjusted EBIT margin as Adjusted EBIT as a percentage of net revenues;
- Adjusted EBITDA as Adjusted EBIT excluding depreciation and amortization expense;
- Adjusted net income, as net income excluding impact of changes in fair value on cash-settled stock-based compensation and restructuring and related charges, severance and other, net, adjusted to give effect to the income tax impact of such adjustments, using an effective tax rate equal to our income tax expense divided by our income before income taxes, each as reflected in our statement of operations for the relevant period;
- Adjusted net income margin as Adjusted net income as a percentage of net revenues;
- Adjusted diluted earnings per share as Adjusted net income per weighted-average number of diluted common shares outstanding.

For the 12 months ended February 23, 2020 and the comparable period in 2019, Adjusted EBIT also excludes underwriter commission paid on behalf of selling stockholders and other costs incurred in connection with our IPO.

We believe Adjusted SG&A, Adjusted EBIT, Adjusted EBIT margin, Adjusted EBITDA, Adjusted net income, Adjusted net income margin and Adjusted diluted earnings per share are useful to investors because they help identify underlying trends in our business that could otherwise be masked by certain expenses that we include in calculating net income but that can vary from company to company depending on its financing, capital structure and the method by which its assets were acquired, and can also vary significantly from period to period. Our management also uses Adjusted EBIT in conjunction with other GAAP financial measures for planning purposes, including as a measure of our core operating results and the effectiveness of our business strategy, and in evaluating our financial performance.

Adjusted SG&A, Adjusted EBIT, Adjusted EBIT margin, Adjusted EBITDA, Adjusted net income, Adjusted net income margin and Adjusted diluted earnings per share have limitations as analytical tools and should not be considered in isolation or as a substitute for an analysis of our results prepared and presented in accordance with GAAP. Some of these limitations include:

- Adjusted EBIT, Adjusted EBIT margin and Adjusted EBITDA do not reflect income tax payments that reduce cash available to us;
- Adjusted EBIT, Adjusted EBIT margin and Adjusted EBITDA do not reflect interest expense, or the cash requirements necessary to service interest or principal payments on our indebtedness, which reduces cash available to us;
- Adjusted EBIT, Adjusted EBIT margin and Adjusted EBITDA exclude other expense (income) net, which has primarily consisted of realized and unrealized gains and losses on our forward foreign exchange contracts and transaction gains and losses on our foreign exchange balances, although these items affect the amount and timing of cash available to us when these gains and losses are realized;
- all of these non-GAAP financial measures exclude the expense resulting from the impact of changes in fair value on our cash-settled stock-based compensation awards, even though, prior to March 2019, such awards were required to be settled in cash;
- all of these non-GAAP financial measures exclude restructuring and related charges, severance and other, net which can affect our current and future cash requirements;
- the expenses and other items that we exclude in our calculations of all of these non-GAAP financial measures may differ from the expenses and other items, if any, that other companies may exclude from all of these non-GAAP financial measures or similarly titled measures;
- Adjusted EBITDA excludes the recurring, non-cash expenses of depreciation of property and equipment and, although these are non-cash expenses, the assets being depreciated may need to be replaced in the future; and
- Adjusted net income, Adjusted net income margin and Adjusted diluted earnings per share do not include all of the effects of income taxes and changes in income taxes reflected in net income.

Because of these limitations, all of these non-GAAP financial measures should be considered along with net income and other operating and financial performance measures prepared and presented in accordance with GAAP.

The following table presents a reconciliation of SG&A, the most directly comparable financial measure calculated in accordance with GAAP, to Adjusted SG&A for each of the periods presented.

Adjusted SG&A:

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in millions)	
	(Unaudited)	
Most comparable GAAP measure:		
Selling, general and administrative expenses	\$ 660.5	\$ 581.9
Non-GAAP measure:		
Selling, general and administrative expenses	\$ 660.5	\$ 581.9
Impact of changes in fair value on cash-settled stock-based compensation ⁽¹⁾	(4.9)	(5.3)
Restructuring and related charges, severance and other, net ⁽²⁾	(5.6)	(0.1)
Adjusted SG&A	\$ 650.0	\$ 576.5

- (1) Includes the impact of changes in fair value of Class B common stock following the grant date on awards that were granted as cash-settled and subsequently replaced with stock-settled awards concurrent with the IPO.
- (2) Restructuring and related charges, severance and other, net include transaction and deal related costs, including initial acquisition and integration costs and amortization of acquired intangible assets.

The following table presents a reconciliation of net income, the most directly comparable financial measure calculated in accordance with GAAP, to Adjusted EBIT and Adjusted EBITDA for each of the periods presented.

Adjusted EBIT and Adjusted EBITDA:

	Three Months Ended		Twelve Months Ended	
	February 23, 2020	February 24, 2019	February 23, 2020	February 24, 2019
	(Dollars in millions)			
	(Unaudited)			
Most comparable GAAP measure:				
Net income	\$ 152.7	\$ 146.5	\$ 401.2	\$ 450.4
Non-GAAP measure:				
Net income	\$ 152.7	\$ 146.5	\$ 401.2	\$ 450.4
Income tax expense	12.1	35.3	59.4	82.5
Interest expense	16.7	17.5	65.4	57.3
Other (income) expense, net	(2.7)	1.6	(6.3)	(23.7)
Underwriter commission paid on behalf of selling stockholders	—	—	24.9	—
Charges related to the transition to being a public company	—	—	3.5	0.1
Impact of changes in fair value on cash-settled stock-based compensation ⁽¹⁾	4.9	5.3	33.7	44.3
Restructuring and related charges, severance and other, net ⁽²⁾	5.6	0.1	11.8	4.9
Adjusted EBIT	\$ 189.3	\$ 206.3	\$ 593.6	\$ 615.8
Depreciation and amortization ⁽³⁾	34.7	28.6	130.0	116.0
Adjusted EBITDA	\$ 224.0	\$ 234.9	\$ 723.6	\$ 731.8
Adjusted EBIT margin	12.6%	14.4%		

- (1) Includes the impact of changes in fair value of Class B common stock following the grant date on awards that were granted as cash-settled and subsequently replaced with stock-settled awards concurrent with the IPO.

[Table of Contents](#)

- (2) Restructuring and related charges, severance and other, net include transaction and deal related costs, including initial acquisition and integration costs and amortization of acquired intangible assets.
- (3) Depreciation and amortization amount net of amortization of acquired intangible assets included in Restructuring and related charges, severance and other, net.

The following table presents a reconciliation of net income, the most directly comparable financial measure calculated in accordance with GAAP, to Adjusted net income for each of the periods presented and the calculation of Adjusted diluted earnings per share for each of the periods presented.

Adjusted Net Income and Adjusted Diluted Earnings per Share:

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in millions, except per share amounts) (Unaudited)	
Most comparable GAAP measure:		
Net income	\$ 152.7	\$ 146.5
Non-GAAP measure:		
Net income	\$ 152.7	\$ 146.5
Impact of changes in fair value on cash-settled stock-based compensation ⁽¹⁾	4.9	5.3
Restructuring and related charges, severance and other, net ⁽²⁾	5.6	0.1
Tax impact of adjustments	(0.8)	(1.0)
Adjusted net income	\$ 162.4	\$ 150.9
Adjusted net income margin	10.8%	10.5%
Adjusted diluted earnings per share	\$ 0.40	\$ 0.38

(1) Includes the impact of changes in fair value of Class B common stock following the grant date on awards that were granted as cash-settled and subsequently replaced with stock-settled awards concurrent with the IPO.

(2) Restructuring and related charges, severance and other, net include transaction and deal related costs, including initial acquisition and integration costs and amortization of acquired intangible assets.

Net Debt and Leverage Ratio:

We define net debt, a non-GAAP financial measure, as total debt, excluding capital leases, less cash and cash equivalents and short-term investments in marketable securities. We define leverage ratio, a non-GAAP financial measure, as the ratio of total debt to the last 12 months Adjusted EBITDA. Our management believes net debt and leverage ratio are important measures to monitor our financial flexibility and evaluate the strength of our balance sheet. Net debt and leverage ratio have limitations as analytical tools and may vary from similarly titled measures used by other companies. Net debt and leverage ratio should not be considered in isolation or as a substitute for an analysis of our results prepared and presented in accordance with GAAP.

[Table of Contents](#)

The following table presents a reconciliation of total debt, excluding capital leases, the most directly comparable financial measure calculated in accordance with GAAP, to net debt for each of the periods presented.

	February 23, 2020	November 24, 2019
	(Dollars in millions)	
	(Unaudited)	
Most comparable GAAP measure:		
Total debt, excluding capital leases	\$ 1,013.7	\$ 1,014.4
Non-GAAP measure:		
Total debt, excluding capital leases	\$ 1,013.7	\$ 1,014.4
Cash and cash equivalents	(873.6)	(934.2)
Short-term investments in marketable securities	(84.0)	(80.7)
Net debt	\$ 56.1	\$ (0.5)

The following table presents a reconciliation of total debt, excluding capital leases, the most directly comparable financial measure calculated in accordance with GAAP, to leverage ratio for each of the periods presented.

	February 23, 2020	February 24, 2019
	(Dollars in millions)	
	(Unaudited)	
Total debt, excluding capital leases	\$ 1,013.7	\$ 1,041.1
Last Twelve Months Adjusted EBITDA ⁽¹⁾	\$ 723.6	\$ 731.8
Leverage ratio	1.4	1.4

(1) Last Twelve Months Adjusted EBITDA is reconciled from net income which is the most comparable GAAP measure. Refer to Adjusted EBIT and Adjusted EBITDA table for more information.

Adjusted Free Cash Flow:

We define Adjusted free cash flow, a non-GAAP financial measure, as net cash flow from operating activities less purchases of property, plant and equipment, plus proceeds (less payments) on settlement of forward foreign exchange contracts not designated for hedge accounting, less repurchases of common stock, including shares surrendered for tax withholdings on equity award exercises, and cash dividends to stockholders. We believe Adjusted free cash flow is an important liquidity measure of the cash that is available after capital expenditures for operational expenses and investment in our business. We believe Adjusted free cash flow is useful to investors because it measures our ability to generate or use cash. Once our business needs and obligations are met, cash can be used to maintain a strong balance sheet and invest in future growth.

Our use of Adjusted free cash flow has limitations as an analytical tool and should not be considered in isolation or as a substitute for an analysis of our results under GAAP. First, Adjusted free cash flow is not a substitute for net cash flow from operating activities. Second, other companies may calculate Adjusted free cash flow or similarly titled non-GAAP financial measures differently or may use other measures to evaluate their performance, all of which could reduce the usefulness of Adjusted free cash flow as a tool for comparison. Additionally, the utility of Adjusted free cash flow is further limited as it does not reflect our future contractual commitments and does not represent the total increase or decrease in our cash balance for a given period. Because of these and other limitations, Adjusted free cash flow should be considered along with net cash flow from operating activities and other comparable financial measures prepared and presented in accordance with GAAP.

[Table of Contents](#)

The following table presents a reconciliation of net cash flow from operating activities, the most directly comparable financial measure calculated in accordance with GAAP, to Adjusted free cash flow for each of the period presented.

	Three Months Ended	
	February 23, 2020	February 24, 2019
	(Dollars in millions)	
	(Unaudited)	
Most comparable GAAP measure:		
Net cash provided by operating activities	\$ 197.9	\$ 55.8
Non-GAAP measure:		
Net cash provided by operating activities	\$ 197.9	\$ 55.8
Purchases of property, plant and equipment	(44.4)	(36.1)
(Payments) proceeds on settlement of forward foreign exchange contracts not designated for hedge accounting	(19.3)	55.8
Repurchase of common stock	(30.1)	(3.1)
Repurchase of shares surrendered for tax withholdings on equity award exercises	(75.2)	(0.8)
Dividend to stockholders	(31.9)	(55.0)
Adjusted free cash flow	\$ (3.0)	\$ 16.6

Constant-currency:

We report our operating results in accordance with GAAP, as well as on a constant-currency basis in order to facilitate period-to-period comparisons of our results without regard to the impact of fluctuating foreign currency exchange rates. The term foreign currency exchange rates refers to the exchange rates we use to translate our operating results for all countries where the functional currency is not the U.S. Dollar into U.S. Dollars. Because we are a global company, foreign currency exchange rates used for translation may have a significant effect on our reported results. In general, our reported financial results are affected positively by a weaker U.S. Dollar and are affected negatively by a stronger U.S. Dollar as compared to the foreign currencies in which we conduct our business. References to our operating results on a constant-currency basis mean our operating results without the impact of foreign currency translation fluctuations.

We believe disclosure of constant-currency results is helpful to investors because it facilitates period-to-period comparisons of our results by increasing the transparency of our underlying performance by excluding the impact of fluctuating foreign currency exchange rates. However, constant-currency results are non-GAAP financial measures and are not meant to be considered in isolation or as a substitute for comparable measures prepared in accordance with GAAP. Constant-currency results have no standardized meaning prescribed by GAAP, are not prepared under any comprehensive set of accounting rules or principles and should be read in conjunction with our consolidated financial statements prepared in accordance with GAAP. Constant-currency results have limitations in their usefulness to investors and may be calculated differently from, and therefore may not be directly comparable to, similarly titled measures used by other companies.

We calculate constant-currency amounts by translating local currency amounts in the prior-year period at actual foreign exchange rates for the current period. Our constant-currency results do not eliminate the transaction currency impact, which primarily include the realized and unrealized gains and losses recognized from the measurement and remeasurement of purchases and sales of products in a currency other than the functional currency. Additionally, gross margin is impacted by gains and losses related to the procurement of inventory, primarily products sourced in EUR and USD, by our global sourcing organization on behalf of our foreign subsidiaries.

[Table of Contents](#)

The table below sets forth the calculation of net revenues for each of our regional operating segments on a constant-currency basis for comparison period applicable to the three-month period ended February 23, 2020:

	Three Months Ended		
	February 23, 2020	February 24, 2019	% Increase (Decrease)
	(Dollars in millions)		
	(Unaudited)		
Total revenues			
As reported	\$ 1,506.1	\$ 1,434.5	5.0 %
Impact of foreign currency exchange rates	—	(10.9)	*
Constant-currency net revenues	\$ 1,506.1	\$ 1,423.6	5.8 %
Americas			
As reported	\$ 745.6	\$ 717.3	3.9 %
Impact of foreign currency exchange rates	—	1.5	*
Constant-currency net revenues - Americas	\$ 745.6	\$ 718.8	3.7 %
Europe			
As reported	\$ 512.9	\$ 464.7	10.4 %
Impact of foreign currency exchange rates	—	(10.4)	*
Constant-currency net revenues - Europe	\$ 512.9	\$ 454.3	12.9 %
Asia			
As reported	\$ 247.6	\$ 252.5	(1.9)%
Impact of foreign currency exchange rates	—	(2.0)	*
Constant-currency net revenues - Asia	\$ 247.6	\$ 250.5	(1.2)%

* Not meaningful

Constant-Currency Adjusted EBIT:

The table below sets forth the calculation of Adjusted EBIT on a constant-currency basis for comparison period applicable to the three-month period ended February 23, 2020.

	Three Months Ended		
	February 23, 2020	February 24, 2019	% Increase
	(Dollars in millions)		
	(Unaudited)		
Adjusted EBIT ⁽¹⁾	\$ 189.3	\$ 206.3	(8.2)%
Impact of foreign currency exchange rates	—	(2.9)	*
Constant-currency Adjusted EBIT	<u>\$ 189.3</u>	<u>\$ 203.4</u>	(6.9)%
Constant-currency Adjusted EBIT margin ⁽²⁾	12.6%	14.3%	

(1) Adjusted EBIT is reconciled from net income which is the most comparable GAAP measure. Refer to Adjusted EBIT and Adjusted EBITDA table for more information.

(2) We define constant-currency Adjusted EBIT margin as constant-currency Adjusted EBIT as a percentage of constant-currency net revenues.

* Not meaningful

Constant-Currency Adjusted Net Income and Adjusted Diluted Earnings per Share:

The table below sets forth the calculation of Adjusted net income and Adjusted diluted earnings per share on a constant-currency basis for comparison period applicable to the three-month period ended February 23, 2020.

	Three Months Ended		
	February 23, 2020	February 24, 2019	% Increase
	(Dollars in millions, except per share amounts)		
	(Unaudited)		
Adjusted net income ⁽¹⁾	\$ 162.4	\$ 150.9	7.6%
Impact of foreign currency exchange rates	—	(2.6)	*
Constant-currency Adjusted net income	<u>\$ 162.4</u>	<u>\$ 148.3</u>	9.5%
Constant-currency Adjusted net income margin ⁽²⁾	10.8%	10.4%	
Adjusted diluted earnings per share	\$ 0.40	\$ 0.38	5.3%
Impact of foreign currency exchange rates	—	(0.01)	*
Constant-currency Adjusted diluted earnings per share	<u>\$ 0.40</u>	<u>\$ 0.37</u>	8.1%

(1) Adjusted net income is reconciled from net income which is the most comparable GAAP measure. Refer to Adjusted net income table for more information.

(2) We define constant-currency Adjusted net income margin as constant-currency Adjusted net income as a percentage of constant-currency net revenues.

* Not meaningful

Off-Balance Sheet Arrangements, Guarantees and Other Contingent Obligations

There have been no significant changes to our off-balance sheet arrangements or contractual commitments from those disclosed in our 2019 Annual Report on Form 10-K.

Critical Accounting Policies and Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and the related notes. There have been no significant changes to our critical accounting policies from those disclosed in our 2019 Annual Report on Form 10-K, except for changes related to the adoption of the FASB issued ASU 2016-02, *Leases (Topic 842)*, as described in Note 1 and Note 7.

Recently Issued Accounting Standards

See Note 1 to our unaudited consolidated financial statements included in this Quarterly Report for recently issued accounting standards, including the expected dates of adoption and estimated effects on our consolidated financial statements.

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain matters discussed in this Quarterly Report, including (without limitation) statements under "Management's Discussion and Analysis of Financial Condition and Results of Operations" contain forward-looking statements. Although we believe that, in making any such statements, our expectations are based on reasonable assumptions, any such statement may be influenced by factors that could cause actual outcomes and results to be materially different from those projected.

These forward-looking statements include statements relating to our anticipated financial performance and business prospects, including debt reduction, currency values and financial impact, foreign exchange counterparty exposures, the impact of pending legal proceedings, adequate liquidity levels, dividends and/or statements preceded by, followed by or that include the words "believe", "will", "so we can", "when", "anticipate", "intend", "estimate", "expect", "project", "could", "plans", "seeks" and similar expressions. These forward-looking statements speak only as of the date stated, and we do not undertake any obligation to update or revise publicly any forward-looking statements, whether as a result of new information, future events or otherwise, even if experience or future events make it clear that any expected results expressed or implied by these forward-looking statements will not be realized. Although we believe that the expectations reflected in these forward-looking statements are reasonable, these expectations may not prove to be correct or we may not achieve the financial results, savings or other benefits anticipated in the forward-looking statements. These forward-looking statements are necessarily estimates reflecting the best judgment of our senior management and involve a number of risks and uncertainties, some of which may be beyond our control. These risks and uncertainties, including those disclosed under "Risk Factors" in Part II, Item 1A on this Quarterly Report and in our other filings with the Securities and Exchange Commission, could cause actual results to differ materially from those suggested by the forward-looking statements and include, without limitation:

- changes in general economic and financial conditions, and the resulting impact on the level of discretionary consumer spending for apparel and pricing trend fluctuations, and our ability to plan for and respond to the impact of those changes;
- the potential impact of COVID-19 on both our projected customer demand and supply chain, as well as our consolidated financial position, consolidated results of operations, and consolidated cash flows in fiscal 2020;
- the impact of the United Kingdom's withdrawal from the European Union;
- our ability to effectively manage any global productivity and outsourcing actions as planned, which are intended to increase productivity and efficiency in our global operations, take advantage of lower-cost service-delivery models in our distribution network and streamline our procurement practices to maximize efficiency in our global operations, without business disruption or mitigation to such disruptions;
- consequences of impacts to the businesses of our wholesale customers, including significant store closures or a significant decline in a wholesale customer's financial condition leading to restructuring actions, bankruptcies, liquidations or other unfavorable events for our wholesale customers, caused by factors such as inability to secure financing, decreased discretionary consumer spending, inconsistent traffic patterns and an increase in promotional activity as a result of decreased traffic, pricing fluctuations, general economic and financial conditions and changing consumer preferences;
- our and our wholesale customers' decisions to modify strategies and adjust product mix and pricing, and our ability to manage any resulting product transition costs, including liquidating inventory or increasing promotional activity;
- our ability to purchase products through our independent contract manufacturers that are made with quality raw materials and our ability to mitigate the variability of costs related to manufacturing, sourcing, and raw materials supply and to manage consumer response to such mitigating actions;
- our ability to gauge and adapt to changing U.S. and international retail environments and fashion trends and changing consumer preferences in product, price-points, as well as in-store and digital shopping experiences;
- our ability to respond to price, innovation and other competitive pressures in the global apparel industry, on and from our key customers and in our key markets;
- our ability to increase the number of dedicated stores for our products, including through opening and profitably operating company-operated stores;
- consequences of foreign currency exchange and interest rate fluctuations;
- our ability to successfully prevent or mitigate the impacts of data security breaches;
- our ability to attract and retain key executives and other key employees;
- our ability to protect our trademarks and other intellectual property;

Table of Contents

- the impact of the variables that affect the net periodic benefit cost and future funding requirements of our postretirement benefits and pension plans;
- our dependence on key distribution channels, customers and suppliers;
- our ability to utilize our tax credits and net operating loss carryforwards;
- ongoing or future litigation matters and disputes and regulatory developments;
- the impact of the recently passed Tax Act in the United States, including related changes to our deferred tax assets and liabilities, tax obligations and effective tax rate in future periods, as well as the charge recorded in fiscal 2018;
- changes in or application of trade and tax laws, potential increases in import tariffs or taxes and the potential withdrawal from or renegotiation or replacement of the North America Free Trade Agreement ("NAFTA"); and
- political, social and economic instability, or natural disasters, in countries where we or our customers do business.

We have based the forward-looking statements contained in this Quarterly Report primarily on our current expectations and projections about future events and trends that we believe may affect our business, financial condition, results of operations, prospects, business strategy and financial needs. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties, assumptions and other factors described under “Risk Factors” and elsewhere in this Quarterly Report. These risks are not exhaustive. Other sections of this Quarterly Report include additional factors that could adversely affect our business and financial performance. Moreover, we operate in a very competitive and rapidly changing environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report. We cannot assure you that the results, events and circumstances reflected in the forward-looking statements will be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that “we believe” and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based upon information available to us as of the date of this Quarterly Report, and while we believe such information forms a reasonable basis for such statements, such information may be limited or incomplete, and our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all potentially available relevant information. These statements are inherently uncertain and investors are cautioned not to unduly rely upon these statements.

The forward-looking statements made in this Quarterly Report relate only to events as of the date on which such statements are made. We undertake no obligation to update any forward-looking statements after the date of this Quarterly Report or to conform such statements to actual results or revised expectations, except as required by law.

Item 3. *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK*

There have been no material changes in our primary market risk exposures or how those exposures are managed from the information disclosed in our 2019 Annual Report on Form 10-K.

Item 4. *CONTROLS AND PROCEDURES*

Evaluation of Disclosure Controls and Procedures

We have evaluated, under the supervision and with the participation of management, including our chief executive officer and our chief financial officer, the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act") as of February 23, 2020. Based on that evaluation, our chief executive officer and our chief financial officer concluded that as of February 23, 2020, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control over Financial Reporting

During the first quarter of 2020, we implemented controls related to the adoption of Topic 842 and the related financial statement reporting. There were no other changes in our internal control over financial reporting that occurred during our first quarter of 2020 that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

PART II — OTHER INFORMATION

Item 1. **LEGAL PROCEEDINGS**

In the ordinary course of business, we have various pending cases involving contractual matters, facility and employee-related matters, distribution matters, product liability claims, trademark infringement and other matters. We do not believe any of these pending legal proceedings will have a material impact on our financial condition, results of operations or cash flows.

Item 1A. **RISK FACTORS**

Investing in our Class A common stock involves a high degree of risk. You should consider and read carefully all of the risks and uncertainties described below, as well as other information included in this Quarterly Report and in our other public filings. The risks described below are not the only ones facing us. The occurrence of any of the following risks or additional risks and uncertainties not presently known to us or that we currently believe to be immaterial could materially and adversely affect our business, financial condition or results of operations. In such case, the trading price of our Class A common stock could decline, and you may lose all or part of your original investment. This Quarterly Report also contains forward-looking statements and estimates that involve risks and uncertainties. Our actual results could differ materially from those anticipated in the forward-looking statements as a result of specific factors, including the risks and uncertainties described below.

Risks Relating to Our Business

The novel coronavirus disease (or COVID-19) pandemic is expected to have a material adverse effect on our business and results of operations

The COVID-19 pandemic has negatively impacted the global economy, disrupted consumer spending and global supply chains, and created significant volatility and disruption of financial markets. We expect the COVID-19 pandemic to have a material adverse impact on our business and financial performance. The extent of the impact of the COVID-19 pandemic on our business and financial performance, including our ability to execute our near-term and long-term business strategies and initiatives in the expected time frame, will depend on future developments, including the duration and severity of the pandemic, which are uncertain and cannot be predicted.

As a result of the COVID-19 pandemic, and in response to government mandates or recommendations, as well as decisions we have made to protect the health and safety of our employees, consumers and communities, we have temporarily closed a significant number of our stores globally. We may face longer term store closure requirements and other operational restrictions with respect to some or all of our physical locations for prolonged periods of time due to, among other factors, evolving and increasingly stringent governmental restrictions including public health directives, quarantine policies or social distancing measures. In addition, many of our customers, including significant customers in our wholesale and franchise distribution channels, have closed many of their stores, which will adversely impact our revenues from these customers and franchisees. As a result, we expect our financial results to be materially adversely impacted.

In addition, consumer fears about becoming ill with the disease may continue, which will adversely affect traffic to our and our customers' stores. Consumer spending generally may also be negatively impacted by general macroeconomic conditions and consumer confidence, including the impacts of any recession, resulting from the COVID-19 pandemic. This may negatively impact sales in our stores and our e-commerce channel and may cause our wholesale customers to purchase fewer products from us. Any significant reduction in consumer visits to, or spending at, our and our customers' stores, caused by COVID-19, and any decreased spending at stores or online caused by decreased consumer confidence and spending following the pandemic, would result in a loss of sales and profits and other material adverse effects.

The COVID-19 pandemic also has the potential to significantly impact our supply chain if the factories that manufacture our products, the distribution centers where we manage our inventory, or the operations of our logistics and other service providers are disrupted, temporarily closed or experience worker shortages. We may also see disruptions or delays in shipments and negative impacts to pricing of certain components of our products.

As a result of the COVID-19 pandemic, including related governmental guidance or requirements, we also have recently closed many of our corporate office and other facilities, including our corporate headquarters in San Francisco, and have implemented a work from home policy for many of our corporate employees. This policy may negatively impact productivity and cause other disruptions to our business.

The extent of the impact of the COVID-19 pandemic on our business is highly uncertain and difficult to predict, as information is rapidly evolving with respect to the duration and severity of the pandemic. At this point, we cannot reasonably estimate the duration and severity of the COVID-19 pandemic, or its overall impact on our business.

Our success depends on our ability to maintain the value and reputation of our brands.

Our success depends in large part on the value and reputation of our brands, which are integral to our business and the implementation of our strategies for expanding our business. Maintaining, promoting and positioning our brands will depend largely on the success of our marketing and merchandising efforts and our ability to provide consistent, high-quality products. Our brands and reputation could be adversely affected if we fail to achieve these objectives, if we fail to deliver high-quality products acceptable to our customers and consumers or if we face or mishandle a product recall.

Our brand value also depends on our ability to maintain a positive consumer perception of our corporate integrity and culture. Negative claims or publicity involving us or our products, or the production methods of any of our suppliers or contract manufacturers, could seriously damage our reputation, sales and brand image, regardless of whether such claims or publicity are accurate. Social media, which accelerates and potentially amplifies the scope of negative claims or publicity, can increase the challenges of responding to negative claims or publicity. In addition, we or our senior executives may from time to time take positions on social issues that may be unpopular with some customers or potential customers, which may impact our ability to attract or retain such customers. Adverse publicity could undermine consumer confidence in our brands and reduce long-term demand for our products, even if such publicity is unfounded. Any harm to our brands and reputation could adversely affect our business and financial condition.

We depend on a group of key wholesale customers for a significant portion of our revenues. A significant adverse change in a customer relationship or in a customer's performance or financial position could harm our business and financial condition.

Sales to our top ten wholesale customers accounted for 22% of our total net revenues for the quarters ended February 23, 2020 and 20% for the quarter ended February 24, 2019. No single customer represented 10% or more of our net revenues in either of these periods. While we have long-standing relationships with our wholesale customers, we do not have long-term contracts with them. As a result, purchases generally occur on an order-by-order basis, and the relationship, as well as particular orders, can generally be terminated by either party at any time. If any major wholesale customer decreases or ceases its purchases from us, cancels its orders, delays or defaults on its payment obligations to us, reduces the floor space, assortments, fixtures or advertising for our products or changes its manner of doing business with us for any reason, such as due to store closures, decreased foot traffic or recession resulting from the COVID-19 pandemic, such actions are expected to adversely affect our business and financial condition. Furthermore, certain of our major wholesale customers may seek to distribute our products globally in a manner or at prices that impact the positioning that we seek to promote in our other channels of distribution. In addition, a decline in the performance or financial condition of a major wholesale customer-including bankruptcy or liquidation-could result in a material loss of revenues to us and cause us to limit or discontinue business with that customer, require us to assume more credit risk relating to our receivables from that customer or limit our ability to collect amounts related to previous purchases by that customer. For example, our wholesale customer, Sears Holdings Corporation and certain of its subsidiaries, including Kmart, is currently undergoing bankruptcy proceedings and has closed stores and implemented layoffs in 2019. Continuing developments will likely adversely affect our sales to this customer, even if it continues operations. In addition, store closures, decreased foot traffic and recession resulting from the COVID-19 pandemic will adversely affect the performance and will likely adversely affect the financial condition of many of these customers. The foregoing are expected to have a material adverse effect on our business and financial condition.

The retail industry in the United States has experienced substantial consolidation over the last decade, and further consolidation may occur. Consolidation in the retail industry has typically resulted in store closures, centralized purchasing decisions and increased emphasis by retailers on inventory management and productivity, which could result in fewer stores carrying our products or reduced demand by retailers of our products. In addition, we and other suppliers may experience increased customer leverage over us and greater exposure to credit risk as a result of industry consolidation. Furthermore, consolidation may be partly due to consumers continuing to transition away from traditional wholesale retailers to large online retailers, which in turn exposes our products to increased competition. Any of the foregoing results can impact, and have adversely impacted in the past, our net revenues, margins and ability to operate efficiently.

We may be unable to maintain or increase our sales through our primary distribution channels.

In addition to our brand-dedicated company-operated retail stores and e-commerce sites, our primary distribution channels include department stores, specialty retailers, mass channel retailers, franchised or other brand-dedicated stores, and shop-in-shops.

We may be unable to maintain or increase sales of our products through these distribution channels for several reasons, including the following:

- the retailers in these channels maintain-and seek to grow-substantial private-label and exclusive offerings as they strive to differentiate the brands and products they offer from those of their competitors;
- the retailers change their apparel strategies in a way that shifts focus away from our typical consumer or that otherwise results in a reduction of sales of our products generally, such as a reduction of fixture spaces devoted to our products or a shift to other brands;
- other channels, including vertically-integrated specialty stores and e-commerce sites, account for a substantial portion of jeanswear and casual wear sales. In some of our mature markets, these stores and sites have placed competitive pressure on our primary distribution channels, and many of these stores and sites are now looking to our developing markets to grow their business; and
- shrinking points of distribution, including fewer doors at our customer locations, store closures and decreased foot traffic due the COVID-19 pandemic, or bankruptcy or financial difficulties of a customer.

Further success by retailer private-labels, vertically-integrated specialty stores and e-commerce sites may continue to adversely affect the sales of our products across all channels, as well as the profitability of our brand-dedicated stores. Additionally, our ability to secure or maintain retail floor space, product display prominence, market share and sales in these channels depends on our ability to offer differentiated products , to increase retailer profitability on our products and the strength of our brands, and such efforts could have an adverse impact on our margins.

We are a global company with significant revenues and earnings generated internationally, which exposes us to the impact of foreign currency fluctuations, as well as political and economic risks.

A significant portion of our revenues and earnings are generated internationally. In addition, a substantial amount of our products comes from sources outside the country of distribution. As a result, we are both directly and indirectly (through our suppliers) subject to the risks of doing business outside the United States, including:

- currency fluctuations, which have impacted our results of operations significantly in recent years;
- political, economic and social instability;
- changes in tariffs and taxes;
- regulatory restrictions on our ability to operate in our preferred manner;
- rapidly changing regulatory restrictions and requirements, for example in the area of data privacy; and
- less protective foreign laws relating to intellectual property.

The functional currency for most of our foreign operations is the applicable local currency. As a result, fluctuations in foreign currency exchange rates affect the results of our operations and the value of our foreign assets and liabilities, including debt, which in turn may adversely affect results of operations and cash flows and the comparability of period-to-period results of operations. Changes in foreign currency exchange rates may also affect the relative prices at which we and foreign competitors sell products in the same market. Foreign governmental policies and actions regarding currency valuation could result in actions by the United States and other countries to offset the effects of such fluctuations. Given the unpredictability and volatility of foreign currency exchange rates, ongoing or unusual volatility may adversely impact our business and financial conditions.

Furthermore, due to our global operations, we are subject to numerous domestic and foreign laws and regulations affecting our business, such as those related to labor, employment, worker health and safety, antitrust and competition, environmental protection, consumer protection, privacy and anti-corruption, including but not limited to the Foreign Corrupt Practices Act (the "FCPA") and the U.K. Bribery Act. Although we have put into place policies and procedures aimed at ensuring legal and regulatory compliance, our employees, subcontractors and agents could take actions that violate these requirements. Violations of these regulations could subject us to criminal or civil enforcement actions, any of which could have an adverse effect on our business.

We also are subject to the impacts of political, economic and social instability. For example, in January 2020, the United Kingdom withdrew from the European Union. The withdrawal (commonly referred to as "Brexit") could significantly disrupt the free movement of goods, services, and people between the United Kingdom and the European Union, and result in increased legal and regulatory complexities, as well as potential higher costs of conducting business in Europe. The consequences of the United Kingdom's withdrawal could adversely impact consumer and investor confidence, and the level of consumer purchases of discretionary items and retail products, including our products. Any of these effects, among others, could materially adversely affect our business, results of operations, and financial condition. Brexit has also contributed to significant volatility and uncertainty in global stock markets and currency exchange rates, and such volatility could continue to occur.

Changes to trade policy, including tariff and customs regulations, may have a material adverse effect on our business, financial condition and results of operations.

Changes in U.S. or international social, political, regulatory and economic conditions or in laws and policies governing trade, manufacturing, development and investment in the countries where we currently sell our products or conduct our business, as well as any negative sentiment toward the United States as a result of such changes, could adversely affect our business. The Trump Administration has instituted or proposed changes in trade policies that include the negotiation or termination of trade agreements, the imposition of higher tariffs on U.S. imports, economic sanctions on individuals, corporations or countries, and other government regulations affecting trade between the United States and other countries where we conduct our business. It may be time-consuming and expensive for us to alter our business operations in order to adapt to or comply with any such changes. The Trump Administration has also negotiated a replacement trade deal for NAFTA with Mexico and Canada, known as the United States-Mexico-Canada Agreement ("USMCA"), which may go into force June 1, 2020.

As a result of recent policy changes and proposals of the Trump Administration, there may be greater restrictions and economic disincentives on international trade. New tariffs and other changes in U.S. trade policy could trigger retaliatory actions by affected countries. Like many other multinational corporations, we do a significant amount of business that could be impacted by changes to U.S. and international trade policies (including governmental action related to tariffs and trade agreements). Such changes have the potential to adversely impact the U.S. economy or certain sectors thereof, our industry and the global demand for our products and, as a result, could have a material adverse effect on our business, financial condition and results of operations.

The enactment of tax reform legislation, including legislation implementing changes in taxation of international business activities, could materially impact our financial position and results of operations.

Legislation or other changes in US and international tax laws could increase our liability and adversely affect our after-tax profitability. For example, the Tax Cuts and Jobs Act (the "Tax Act"), was enacted in the United States on December 22, 2017. The Tax Act had a significant impact on our effective tax rate, cash tax expenses and net deferred tax assets. The Tax Act reduced the U.S. corporate statutory tax rate, eliminated or limited the deduction of several expenses that were previously deductible, imposed a mandatory deemed repatriation tax on undistributed historic earnings of foreign subsidiaries, requires a minimum tax on earnings generated by foreign subsidiaries and permits a tax-free repatriation of foreign earnings through a dividends received deduction. We have completed our evaluation of the overall impact of the Tax Act on our effective tax rate and balance sheet through fiscal year ended 2019 and reflected the amounts in our financial statements. The Tax Act, as well as regulations and legal decisions interpreting and applying the Tax Act, may have significant impacts in future periods.

If we encounter problems with distribution, our ability to deliver our products to market could be adversely affected.

We rely on both company-owned and third-party distribution facilities to warehouse and ship products to our wholesale customers, retail stores and e-commerce consumers throughout the world. As part of the pursuit for improved organizational agility and marketplace responsiveness, we have consolidated the number of distribution facilities we rely upon and continue to look for opportunities for further consolidation in certain regions. Such consolidation may make our operations more vulnerable to interruptions in the event of work stoppages or disruption (including as a consequence of public health directives, quarantine policies or social distancing measures imposed by governments), labor disputes, pandemics (such as the COVID-19 pandemic), earthquakes, floods, fires or other natural disasters affecting these distribution centers. In addition, distribution capacity is dependent on the timely performance of services by third parties, including the transportation of products to and from their distribution facilities, which also may be adversely affected by work stoppages or disruption, labor disputes and pandemics. Moreover, our distribution system includes computer-controlled and automated equipment, which may be subject to a number of risks related to data and system security or computer viruses, the proper operation of software and hardware, power interruptions or other system failures. If we encounter problems with our distribution system, whether company-owned or third-party, our ability to meet customer and consumer expectations, manage inventory, complete sales and achieve operating efficiencies could be adversely affected.

Our efforts to expand our retail business may not be successful, which could impact our operating results.

One of our key strategic priorities is to become a leading world-class omni-channel retailer by expanding our consumer reach in brand-dedicated stores globally, including making selective investments in company-operated stores and e-commerce sites, franchisee and other brand-dedicated store models. In many locations, we face major, established retail competitors who may be able to better attract consumers and execute their retail strategies. In addition, a retail operating model involves substantial investments in equipment and property, information systems, inventory and personnel. Due to the high fixed-cost structure associated with these investments, a decline in sales or the closure of or poor performance of stores, including the closure of stores and decreased foot traffic resulting from the COVID-19 pandemic, could result in significant costs and impacts to our margins. Our ability to grow our retail channel also depends on the availability and cost of real estate that meets our criteria for traffic, square footage, demographics and other factors. Failure to identify and secure adequate new locations, or failure to effectively manage the profitability of the fleet of stores, could have an adverse effect on our results of operations.

In addition, our investments in customer, digital, and omni-channel shopping initiatives may not deliver the results we anticipate. One of our strategic priorities is to further develop an omni-channel shopping experience for our customers through the integration of our store and digital shopping channels. Our omni-channel initiatives include cross-channel logistics optimization and exploring additional ways to develop an omni-channel shopping experience, including further digital integration and customer personalization. These initiatives involve significant investments in IT systems and significant operational changes. In addition, our competitors are also investing in omni-channel initiatives, some of which may be more successful than our initiatives. If the implementation of our customer, digital, and omni-channel initiatives is not successful, or we do not realize the return on our investments in these initiatives that we anticipate, our operating results would be adversely affected.

If we are unable to effectively execute our e-commerce business, our reputation and operating results may be harmed.

While e-commerce still comprises a small portion of our net revenues, it has been our fastest growing business over the last several years. The success of our e-commerce business depends, in part, on third parties and factors over which we have limited control, including changing consumer preferences and buying trends relating to e-commerce usage, both domestically and abroad, and promotional or other advertising initiatives employed by our wholesale customers or other third parties on their e-commerce sites. Any failure on our part, or on the part of our third-party digital partners, to provide attractive, reliable, secure and user-friendly e-commerce platforms could negatively impact our consumers' shopping experience, resulting in reduced website traffic, diminished loyalty to our brands and lost sales. In addition, as we continue to expand and increase the global presence of our e-commerce business, sales from our retail stores and wholesale channels of distribution in areas where e-commerce sites are introduced may decline due to changes in consumer shopping habits and cannibalization.

We are also vulnerable to certain additional risks and uncertainties associated with our e-commerce sites, including:

- changes in required technology interfaces;
- website downtime and other technical failures;
- costs and technical issues from website software upgrades;
- data and system security;
- computer viruses; and
- changes in applicable federal and state regulations.

In addition, we must keep up to date with competitive technology trends, including the use of new or improved technology, creative user interfaces and other e-commerce marketing tools such as paid search and mobile applications, among others, which may increase our costs and which may not succeed in increasing sales or attracting consumers. For example, it is possible that consumers may not sign up for our loyalty program at anticipated rates if they do not find the features and benefits compelling, and that we may not realize the benefits that we anticipate from these programs. Our failure to successfully respond to these risks and uncertainties might adversely affect the sales in our e-commerce business, as well as damage our reputation and brands.

Additionally, the success of our e-commerce business and the satisfaction of our consumers depend on their timely receipt of our products. The efficient flow of our products requires that our company-operated and third-party operated distribution facilities have adequate capacity to support the current level of e-commerce operations and any anticipated increased levels that may follow from the growth of our e-commerce business. If we encounter difficulties with our distribution facilities or in our relationships with the third parties who operate the facilities, or if any such facilities were to shut down or be limited in capacity for any reason, including as a result of fire, other natural disaster, labor disruption, or pandemic (including as a consequence of public health directives, quarantine policies or social distancing measures resulting from the COVID-19 pandemic), we could face shortages of inventory, resulting in "out of stock" conditions in the e-commerce sites we operate and those operated by our wholesale customers or other third parties, and we could experience disruption or delay, or incur significantly higher costs and longer lead times, associated with distributing our products to our consumers and experience dissatisfaction from our consumers. Any of these issues could have an adverse effect on our business and harm our reputation.

Unexpected obstacles in new markets and that arise in connection with growth in our existing markets may limit our expansion opportunities and cause our business and growth to suffer.

Our future growth depends in part on our continued expansion efforts in existing markets and in new markets where we may have limited familiarity and experience with regulatory environments and market practices. We may not be able to expand or successfully operate in those markets as a result of such unfamiliarity or other unexpected barriers to expansion or entry. In connection with our efforts, we may encounter obstacles, including cultural and linguistic differences, differences in regulatory environments, labor practices and market practices, economic or governmental instability, difficulties in keeping abreast of market, business and technical developments and foreign consumers' tastes and preferences. Our failure to develop our business in new markets or disappointing growth in existing markets that we may experience could harm our business and results of operations.

We face risks arising from any future restructuring of our operations and uncertainty with respect to our ability to achieve any anticipated cost savings associated with such restructuring.

We continuously assess opportunities to streamline operations and fuel long-term profitable growth. Future charges related to such actions may harm our profitability in the periods incurred.

Implementation of global productivity actions presents a number of significant risks, including:

- actual or perceived disruption of service or reduction in service levels to customers and consumers;
- potential adverse effects on our internal control environment and inability to preserve adequate internal controls relating to our general and administrative functions in connection with the decision to outsource certain business service activities;
- actual or perceived disruption to suppliers, distribution networks and other important operational relationships and the inability to resolve potential conflicts in a timely manner;
- difficulty in obtaining timely delivery of products of acceptable quality from our contract manufacturers;
- diversion of management attention from ongoing business activities and strategic objectives; and
- failure to maintain employee morale and retain key employees.

Because of these and other factors, we cannot predict whether we will fully realize the purpose and anticipated operational benefits or cost savings of any global productivity actions and, if we do not, our business and results of operations may be adversely affected. Furthermore, if we experience adverse changes to our business, additional restructuring or reorganization activities may be required in the future.

Any major disruption or failure of our information technology systems, or our failure to successfully implement new technology effectively, could adversely affect our business and operations.

We rely on various information technology systems, owned by us and third parties, to manage our operations. Over the last several years, we have been and continue to implement modifications and upgrades to our systems, including making changes to legacy systems, replacing legacy systems with successor systems with new functionality and acquiring new systems with new functionality. For example, over the next several years, we plan to continue the process of implementing a new enterprise resource planning system across the company. These activities subject us to inherent costs and risks associated with replacing and upgrading these systems, including impairment of our ability to fulfill customer orders, potential disruption of our internal control structure, substantial capital expenditures, additional administration and operating expenses, retention of sufficiently skilled personnel to implement and operate the new systems, demands on management time, and other risks and costs of delays or difficulties in transitioning to new or upgraded systems or of integrating new or upgraded systems into our current systems. Our system implementations may not result in productivity improvements at a level that outweighs the costs of implementation, or at all. In addition, the difficulties with implementing new or upgraded technology systems may cause disruptions in our business operations and have an adverse effect on our business and operations, if not anticipated and appropriately mitigated.

As we outsource functions, we become more dependent on the entities performing those functions. Disruptions or delays at our third-party service providers could adversely impact our operations.

As part of our long-term profitable growth strategy, we are continually looking for opportunities to provide essential business services in a more cost-effective manner. In some cases, this requires the outsourcing of functions or parts of functions that can be performed more effectively by external service providers. For example, we currently outsource a significant portion of our information technology, finance, customer relations and customer service functions to Wipro Limited. While we believe we conduct appropriate diligence before entering into agreements with any outsourcing entity, the failure of one or more of such entities to meet our performance standards and expectations, including with respect to data security, compliance with data protection and privacy laws, providing services on a timely basis or providing services at the prices we expect, may have an adverse effect on our results of operations or financial condition. For example, our outsourcing entities and other third-party service providers may experience difficulties, disruptions, delays, or failures in their ability to deliver services to us as a result of the COVID-19 pandemic. We could face increased costs or disruption associated with finding replacement vendors or hiring new employees in order to return these services in-house, which may have a significant impact on the cost and timing of receipt of inventory for future seasons. We may outsource other functions in the future, which would increase our reliance on third parties.

We face cybersecurity, privacy and data protection risks and may incur increasing costs in an effort to minimize those risks.

We utilize systems that allow for the secure storage and transmission of proprietary or confidential information regarding our consumers, employees, and others, including credit card information and personal information. As evidenced by the numerous companies who have suffered serious data security breaches, we may be vulnerable to, and unable to anticipate or detect, data

security breaches and data loss, including rapidly evolving and increasingly sophisticated cybersecurity attacks. In addition, data security breaches can also occur as a result of a failure by us or our employees, such as failing to follow policies, procedures or training, or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. In addition to our own databases, we use third-party service providers to store, process and transmit confidential or personal information on our behalf. Although we contractually require these service providers to implement and use reasonable security measures and to comply with laws relating to privacy and data protection, we cannot control third parties and cannot guarantee that a data security breach will not occur in the future either at their location or within their systems.

A data security breach may expose us to a risk of loss or misuse of this information, and could result in significant costs to us, which may include, among others, potential liabilities to payment card networks for reimbursement of credit card fraud and card reissuance costs, including fines and penalties, potential liabilities from governmental or third-party investigations, proceedings or litigation and diversion of management attention and also further inquiries and increased scrutiny from regulatory entities. We could also experience delays or interruptions in our ability to function in the normal course of business, including delays in the fulfillment or cancellation of customer orders or disruptions in the manufacture and shipment of products. In addition, actual or anticipated attacks may cause us to incur costs, including costs to deploy additional personnel and protection technologies, train employees and engage third-party experts and consultants. Any compromise or breach of our security could result in a violation of applicable privacy and other laws, significant legal and financial exposure, and a loss of confidence in our security measures, which could have an adverse effect on our results of operations and our reputation.

The regulatory environment surrounding information security and privacy is increasingly demanding, with frequent imposition of new and changing requirements. In the United States, various laws and regulations apply to the collection, processing, disclosure and security of certain types of data, including the Electronic Communications Privacy Act, the Computer Fraud and Abuse Act, the Health Insurance Portability and Accountability Act of 1996, the Gramm Leach Bliley Act and state laws relating to privacy and data security, including the California Consumer Privacy Act. Several foreign countries and governmental bodies, including the European Union, also have laws and regulations dealing with the handling and processing of personal information obtained from their residents, which in certain cases are more restrictive than those in the United States. Laws and regulations in these jurisdictions apply broadly to the collection, use, storage, disclosure and security of various types of data referred to as personal information. The definition of personal information, which includes data that identifies or may be used to identify an individual, directly or indirectly, such as names or email addresses and, in some jurisdictions, any unique identifier such as an internet protocol addresses, has been continually revised in a way that puts larger amounts of information within scope of the laws. Such laws and regulations may be modified or subject to new or different interpretations, and new laws and regulations may be enacted in the future. Within the European Union, the General Data Protection Regulation, which became effective in May 2018 and replaced the 1995 European Union Data Protection Directive and superseded applicable European Union member state legislation, imposes significant new requirements on how companies collect, process and transfer personal data, as well as significant fines for noncompliance. The increased complexity in these laws and the inherent conflicts between jurisdictions may result in an inability for the company to comply with all applicable requirements in the jurisdictions where we do business despite our best efforts.

Any failure or perceived failure by us to comply with laws, regulations, policies or regulatory guidance relating to privacy or data security may result in governmental investigations and enforcement actions, litigation, fines and penalties or adverse publicity, and could cause our customers and consumers to lose trust in us, which could have an adverse effect on our reputation and business. Our efforts to implement evolving global detailed legal requirements relating to protection of personal information creates uncertainty in our ability to anticipate the volume of consumer inquiries, to timely respond, and to predict consumer understanding of our business practices which may all unintentionally create confusion about our practices and cause loss of trust and damage to our reputation.

We currently rely on contract manufacturing of our products. Our inability to secure production sources meeting our quality, cost, working conditions and other requirements, or failures by our contract manufacturers to perform, could harm our sales, service levels and reputation.

In fiscal year 2019, we sourced approximately 99% of our products from independent contract manufacturers, that purchase fabric and make our products and may also provide us with design and development services. As a result, we must locate and secure production capacity. We depend on contract manufacturers to maintain adequate financial resources, including access to sufficient credit, secure a sufficient supply of raw materials, and maintain sufficient development and manufacturing capacity in an environment characterized by continuing cost pressure and demands for product innovation and speed-to-market. In addition, we currently do not have any material long-term contracts with any of our contract manufacturers. Under our current arrangements with our contract manufacturers, these manufacturers generally may unilaterally terminate their relationship with us at any time. While we have historically worked with numerous manufacturers, in recent years we have begun consolidating the number of contract manufacturers from which we source our products. In addition, some of our contract manufacturers have merged. Reliance on a fewer number of contract manufacturers involves risk, and any difficulties or failures to perform by our contract manufacturers

could cause delays in product shipments or otherwise negatively affect our results of operations. If our contract manufacturers, or any raw material vendors or suppliers on which our contract manufacturers rely, suffer prolonged manufacturing or transportation disruptions due to public health conditions, such as the recent COVID-19 pandemic, or other unforeseen events, our ability to source product on a timely basis could be adversely impacted, which could adversely affect our results of operations.

A contractor manufacturer's failure to ship products to us in a timely manner or to meet our quality standards, or interference with our ability to receive shipments due to factors such as port or transportation conditions or security incidents, could cause us to miss the delivery date requirements of our customers. Failing to make timely deliveries may cause our customers to cancel orders, refuse to accept deliveries, impose non-compliance charges, demand reduced prices or reduce future orders, any of which could harm our sales and margins. If we need to replace any contract manufacturer, we may be unable to locate additional contract manufacturers on terms that are acceptable to us, or at all, or we may be unable to locate additional contract manufacturers with sufficient capacity to meet our requirements or to fill our orders in a timely manner.

We require contract manufacturers to meet our standards in terms of working conditions, environmental protection, raw materials, facility safety, security and other matters before we are willing to place business with them. As such, we may not be able to obtain the lowest-cost production. We also may need to move our production to the extent that we determine our contract manufacturers are not in compliance with our standards. We may also encounter delays in production and added costs as a result of the time it takes to train our contract manufacturers in our methods, products and quality control standards. In addition, the labor and business practices of apparel manufacturers and their suppliers, including raw material suppliers, have received increased attention from the media, non-governmental organizations, consumers and governmental agencies in recent years. Any failure by our contract manufacturers or their suppliers to adhere to labor or other laws, appropriate labor or business practices, safety, structural or environmental standards, and the potential litigation, negative publicity and political pressure relating to any of these events, could harm our business and reputation.

Our suppliers may be impacted by economic conditions and cycles and changing laws and regulatory requirements which could impact their ability to do business with us or cause us to terminate our relationship with them and require us to find replacements, which we may have difficulty doing.

Our suppliers are subject to the fluctuations in general economic cycles, and global economic conditions may impact their ability to operate their businesses. They may also be impacted by the increasing costs or availability of raw materials, labor and distribution, resulting in demands for less attractive contract terms or an inability for them to meet our requirements or conduct their own businesses. The performance and financial condition of a supplier may cause us to alter our business terms or to cease doing business with a particular supplier, or change our sourcing practices generally, which could in turn adversely affect our business and financial condition.

In addition, regulatory developments such as reporting requirements on the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries could affect the sourcing and availability of raw materials used by our suppliers in the manufacturing of certain of our products. We have been and may continue to be subject to costs associated with regulations, including for the diligence pertaining to the presence of any conflict minerals used in our products and the cost of remediation and other changes to products, processes or sources of supply as a consequence of such verification activities. The impact of such regulations may result in a limited pool of suppliers who provide conflict free metals, and we cannot be assured that we will be able to obtain products in sufficient quantities or at competitive prices. Also, because our supply chain is complex, we may face reputational challenges with our consumers and other stakeholders if we are unable to sufficiently verify the origins for all metals used in the products we sell.

If one or more of our counterparty financial institutions default on their obligations to us, we may incur significant losses.

As part of our hedging activities, we enter into transactions involving derivative financial instruments, which may include forward contracts, commodity futures contracts, option contracts, collars and swaps, with various financial institutions. In addition, we have significant amounts of cash, cash equivalents and other investments on deposit or in accounts with banks or other financial institutions in the United States and abroad. We also have entered into a second amended and restated credit agreement with several financial institutions that provides us with additional credit availability. As a result, we are exposed to the risk of default by or failure of counterparty financial institutions. This risk may be heightened during economic downturns and periods of uncertainty in the financial markets, including as a result of the COVID-19 pandemic. If one of our counterparties were to become insolvent or file for bankruptcy, our ability to recover losses incurred as a result of default or our assets that are deposited or held in accounts with such counterparty may be limited by the counterparty's liquidity or the applicable laws governing the insolvency or bankruptcy proceedings. In the event of default or failure of one or more of our counterparties, we could incur significant losses, which could negatively impact our results of operations and financial condition.

The loss of members of our executive management and other key employees or the failure to attract and retain key personnel could harm our business.

Our future success depends, in part, on the continued service of our executive management team and other key employees, and the loss of the services of any key individual could harm our business. Our future success also depends, in part, on our ability to recruit, retain and motivate our employees sufficiently, both to maintain our current business and to execute our strategic initiatives. Competition for experienced and well-qualified employees in our industry is particularly intense in many of the places where we do business, and we may not be successful in attracting and retaining such personnel. Moreover, shifts in U.S. immigration policy could negatively impact our ability to attract, hire and retain highly skilled employees who are from outside the United States.

Most of the employees in our production and distribution facilities are covered by collective bargaining agreements, and any material job actions could negatively affect our results of operations.

In North America, most of our distribution employees are covered by various collective bargaining agreements. Outside North America, most of our production and distribution employees are covered by either industry-sponsored and/or government-sponsored collective bargaining mechanisms. Any work stoppages or other job actions by these employees could harm our business and reputation.

Our licensees and franchisees may not comply with our product quality, manufacturing standards, marketing and other requirements, which could negatively affect our reputation and business.

We license our trademarks to third parties for manufacturing, marketing and distribution of various products. While we enter into comprehensive agreements with our licensees covering product design, product quality, sourcing, manufacturing, marketing and other requirements, our licensees may not comply fully with those agreements. Non-compliance could include marketing products under our brand names that do not meet our quality and other requirements or engaging in manufacturing practices that do not meet our supplier code of conduct. These activities could harm our brand equity, our reputation and our business.

In addition, we enter into franchise agreements with unaffiliated franchisees to operate stores and, in certain circumstances, websites in many countries around the world. Under these agreements, third parties operate, or will operate, stores and websites that sell apparel and related products under our brand names. While the agreements we have entered into and plan to enter into in the future provide us with certain termination rights, the value of our brands could be impaired to the extent that these third parties do not operate their stores or websites in a manner consistent with our requirements regarding our brand identities and customer experience standards. Failure to protect the value of our brands, or any other harmful acts or omissions by a franchisee, could have an adverse effect on our results of operations and our reputation.

Our success depends on the continued protection of our trademarks and other proprietary intellectual property rights.

Our trademarks and other intellectual property rights are important to our success and competitive position, and the loss of or inability to enforce trademark and other proprietary intellectual property rights could harm our business. We devote substantial resources to the establishment and protection of our trademark and other proprietary intellectual property rights on a global basis. In addition to our trademarks and other intellectual property rights, as we develop technologies, such as Project F.L.X., that we believe are innovative, we intend to continually assess the patentability and other protectability of new intellectual property. However, the patents that we own and those that may be issued in the future may not adequately protect our intellectual property, survive legal challenges or provide us with competitive advantages, and our patent applications may not be granted. Our efforts to establish and protect our proprietary intellectual property rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to claim ownership or seeking to block sales of our products. Unauthorized copying of our products or unauthorized use of our trademarks, patented technologies or other proprietary rights may not only erode sales of our products but may also cause significant reputational harm to our brand names and our ability to effectively represent ourselves to our consumers, contractors, suppliers and/or licensees. Moreover, others may seek to assert rights in, or ownership of, our trademarks and other intellectual property, including through civil and/or criminal prosecution. We may not be able to successfully resolve those claims, which may result in financial liability and criminal penalties, and defending or pursuing such claims may create significant financial burdens. In addition, the laws and enforcement mechanisms of some foreign countries may not allow us to protect our proprietary rights to the same extent as we are able to in the United States and other countries.

We have substantial liabilities and cash requirements associated with our postretirement benefits, pension and deferred compensation plans.

Our postretirement benefits, pension and deferred compensation plans result in substantial liabilities on our balance sheet. These plans and activities have generated, and will generate, substantial cash requirements for us, and these requirements may increase beyond our expectations in future years based on changing market conditions. The difference between plan obligations and assets, or the funded status of the plans, is a significant factor in determining the net periodic benefit costs of our pension plans

and the ongoing funding requirements of those plans. Many variables, such as changes in interest rates, mortality rates, health care costs, investment returns and/or the market value of plan assets, can affect the funded status of our defined benefit pension, other postretirement, and postemployment benefit plans and cause volatility in the net periodic benefit cost and future funding requirements of the plans. Plan liabilities may impair our liquidity, have an unfavorable impact on our ability to obtain financing and place us at a competitive disadvantage compared to some of our competitors who do not have such liabilities and cash requirements.

Natural disasters, public health crises, including the COVID-19 pandemic, political crises, and other catastrophic events or other events outside of our control may damage our facilities or the facilities of third parties on which we depend, and could impact consumer spending.

Our global headquarters and the headquarters of our Americas region are both located in California near major geologic faults that have experienced earthquakes in the past. An earthquake or other natural disaster or power shortages or outages could disrupt operations or impair critical systems. Any of these disruptions or other events outside of our control could affect our business negatively, harming our operating results. In addition, if any of our facilities, including our manufacturing, finishing or distribution facilities, our company-operated or franchised stores or the facilities of our suppliers, third-party service providers, or consumers, is affected by natural disasters, such as earthquakes, tsunamis, power shortages or outages, floods or monsoons, public health crises, such as pandemics and epidemics (including, for example, the COVID-19 pandemic), political crises, such as terrorism, war, political instability or other conflict, or other events outside of our control, our business and operating results could suffer. Disasters occurring at our or our vendors' facilities also could impact our reputation and our consumers' perception of our brands. Moreover, these types of events could negatively impact consumer spending in the impacted regions or, depending upon the severity, globally, which could adversely impact our operating results. Any disruptions in our operations could negatively impact our business and operating results, and harm our reputation. In addition, we may not carry business insurance or may not carry sufficient business insurance to compensate for losses that may occur. Any such losses or damages could have a material adverse effect on our business, operating results and financial condition.

Failure to comply with anti-bribery, anti-corruption and anti-money laundering laws could subject us to penalties and other adverse consequences.

We are subject to the FCPA, the U.K. Bribery Act and other anti-bribery, anti-corruption and anti-money laundering laws in various jurisdictions around the world. The FCPA, the U.K. Bribery Act and similar applicable laws generally prohibit companies, as well as their officers, directors, employees and third-party intermediaries, business partners and agents, from making improper payments or providing other improper things of value to government officials or other persons. We and our third-party intermediaries may have direct or indirect interactions with officials and employees of government agencies or state owned or affiliated entities and other third parties where we may be held liable for corrupt or other illegal activities, even if we do not explicitly authorize them. While we have policies and procedures and internal controls to address compliance with such laws, we cannot assure you that all of our employees and third-party intermediaries, business partners and agents will not take actions in violation of such policies and laws, for which we may be ultimately held responsible. To the extent that we learn that any of our employees or third-party intermediaries, business partners or agents do not adhere to our policies, procedures or internal controls, we are committed to taking appropriate remedial action. In the event that we believe or have reason to believe that our directors, officers, employees or third-party intermediaries, agents or business partners have or may have violated such laws, we may be required to investigate or to have outside counsel investigate the relevant facts and circumstances. Detecting, investigating and resolving actual or alleged violations can be extensive and require a significant diversion of time, resources and attention from senior management. Any violation of the FCPA, the U.K. Bribery Act or other applicable anti-bribery, anti-corruption and anti-money laundering laws could result in whistleblower complaints, adverse media coverage, investigations, loss of export privileges, and criminal or civil sanctions, penalties and fines, any of which may could adversely affect our business and financial condition.

Our current and future products may experience quality problems from time to time that could result in negative publicity, litigation, product recalls and warranty claims, which could result in decreased revenues and harm to our brands.

There can be no assurance we will be able to detect, prevent or fix all defects that may affect our products. Inconsistency of legislation and regulations may also affect the costs of compliance with such laws and regulations. Such problems could hurt the image of our brands, which is critical to maintaining and expanding our business. Any negative publicity or lawsuits filed against us related to the perceived quality of our products could harm our brand and decrease demand for our products.

Climate change may adversely impact our business.

Rising global average temperatures due to increased concentrations of carbon dioxide and other greenhouse gases in the atmosphere are causing significant changes in weather patterns around the globe and an increase in the frequency and severity of natural disasters. Changes in weather patterns and the increased frequency, intensity and duration of extreme weather events (e.g., floods, droughts and severe storms) could, among other things, adversely impact the cultivation of cotton, which is a key resource

in the production of our products, disrupt the operation of our supply chain and the productivity of our contract manufacturers, disrupt retail operations and traffic in consumer markets, increase our product costs and impact the types of apparel products that consumers purchase. As a result, the effects of climate change could have short- and long-term impacts on our business and operations.

Future acquisitions of and investments in new businesses could impact our business and financial condition.

From time to time, we may acquire or invest in businesses or partnerships that we believe could complement our business or offer growth opportunities. The pursuit of such acquisitions or investments may divert the attention of management and cause us to incur various expenses, regardless of whether the acquisition or investment is ultimately completed. In addition, acquisitions and investments may not perform as expected or cause us to assume unrecognized or underestimated liabilities. Further, if we are able to successfully identify and acquire additional businesses, we may not be able to successfully integrate the acquired personnel or operations, or effectively manage the combined business following the acquisition, any of which could harm our business and financial condition.

Our business is affected by seasonality, which could result in fluctuations in our operating results.

We experience moderate fluctuations in aggregate sales volume during the year. Historically, revenues in our third and fourth fiscal quarters have slightly exceeded those in our first and second fiscal quarters. In addition, our customers and consumers may cancel orders, change delivery schedules or change the mix of products ordered with minimal notice. As a result, we may not be able to accurately predict our quarterly sales. Accordingly, our results of operations are likely to fluctuate significantly from period to period. This seasonality, along with other factors that are beyond our control, including general economic conditions, changes in consumer preferences, weather conditions, including the effects of climate change, the availability of import quotas, transportation disruptions and foreign currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate.

We are subject to periodic claims and litigation that could result in unexpected expenses and could ultimately be resolved against us.

From time to time, we may be involved in litigation and other proceedings, including matters related to commercial disputes, product liability, intellectual property, trade, customs laws and regulations, employment, regulatory compliance and other claims related to our business. Any such proceeding or audit could result in significant settlement amounts, damages, fines or other penalties, divert financial and management resources and result in significant legal fees. An unfavorable outcome of any particular proceeding could exceed the limits of our insurance policies, or our insurance carriers may decline to fund such final settlements or judgments, which could have an adverse impact on our business, financial condition and results of operations. In addition, any such proceeding could negatively impact our brand equity and our reputation.

Risks Relating to Our Debt

We have debt and interest payment requirements at a level that may restrict our future operations.

As of February 23, 2020, we had \$1.0 billion of debt, all of which was unsecured, and we had \$819.5 million of additional borrowing capacity under our credit facility. In April, 2020, as a precautionary measure to maximize liquidity and to increase available cash on hand, the Company drew down \$300 million on its senior secured revolving credit facility. The credit facility is secured by domestic inventories, accounts receivable, and other assets such as the Levi's® trademarks in the U.S. Our debt requires us to dedicate a substantial portion of any cash flow from operations to the payment of interest and principal due under our debt, which reduces funds available for other business purposes and results in us having lower net income than we would otherwise have had. This dedicated use of cash could impact our ability to successfully compete by, for example:

- increasing our vulnerability to general adverse economic and industry conditions, including any adverse economic and industry conditions resulting from the COVID-19 pandemic, such as store closures, decreased foot traffic and recession;
- limiting our flexibility in planning for or reacting to changes in our business and industry;
- placing us at a competitive disadvantage compared to some of our competitors that have less debt; and
- limiting our ability to obtain additional financing required to fund working capital and capital expenditures and for other general corporate purposes.

A substantial portion of our debt is Euro-denominated senior notes. In addition, borrowings under our credit facility bear interest at variable rates. As a result, increases in market interest rates and changes in foreign exchange rates could require a greater portion of our cash flow to be used to pay interest, which could further hinder our operations. Increases in market interest rates may also affect the trading price of our debt securities that bear interest at a fixed rate. Our ability to satisfy our obligations and

to reduce our total debt depends on our future operating performance and on economic, financial, competitive and other factors, many of which are beyond our control.

In addition, certain loans made by us and financing extended to us are made at variable rates that use LIBOR as a benchmark for establishing the interest rate. LIBOR is the subject of recent proposals for reform. On July 27, 2017, the United Kingdom's Financial Conduct Authority announced that it intends to stop persuading or compelling banks to submit LIBOR rates after 2021. These reforms may cause LIBOR to cease to exist, new methods of calculating LIBOR to be established or the establishment of an alternative reference rate(s). These consequences cannot be entirely predicted and could have an adverse impact on the market value for or value of LIBOR-linked securities, loans, and other financial obligations or extensions of credit held by or due to us. Changes in market interest rates may influence our financing costs, returns on financial investments and the valuation of derivative contracts and could reduce our earnings and cash flows.

The Tax Act also places limitations on businesses abilities to deduct interest expenses. If our adjusted taxable income were to decrease, we may not be able to fully deduct our interest expenses.

Restrictions in our notes, indentures and credit facility may limit our activities, including dividend payments, share repurchases and acquisitions.

Our credit facility and the indentures governing our senior unsecured notes contain restrictions, including covenants limiting our ability to incur additional debt, grant liens, make acquisitions and other investments, prepay specified debt, consolidate, merge or acquire other businesses or engage in other fundamental changes, sell assets, pay dividends and other distributions, repurchase stock, enter into transactions with affiliates, enter into capital leases or certain leases not in the ordinary course of business, enter into certain derivatives, grant negative pledges on our assets, make loans or other investments, guarantee third-party obligations, engage in sale leasebacks and make changes in our corporate structure. These restrictions, in combination with our leveraged condition, may make it more difficult for us to successfully execute our business strategy, grow our business or compete with companies not similarly restricted.

If our foreign subsidiaries are unable to distribute cash to us when needed, we may be unable to satisfy our obligations under our debt securities, which could force us to sell assets or use cash that we were planning to use elsewhere in our business.

We conduct our international operations through foreign subsidiaries and we only receive the cash that remains after our foreign subsidiaries satisfy their obligations. We may depend upon funds from our foreign subsidiaries for a portion of the funds necessary to meet our debt service obligations. Any agreements our foreign subsidiaries enter into with other parties, as well as applicable laws and regulations limiting the right and ability of non-U.S. subsidiaries and affiliates to pay dividends and remit cash to affiliated companies, may restrict the ability of our foreign subsidiaries to pay dividends or make other distributions to us. If those subsidiaries are unable to transfer the amount of cash that we need, we may be unable to make payments on our debt obligations, which could force us to sell assets or use cash that we were planning on using elsewhere in our business, which could hinder our operations.

Changes in our credit ratings or macroeconomic conditions may affect our liquidity, increasing borrowing costs and limiting our financing options.

Our long-term debt is currently rated BB+ by S&P Global Ratings, Ba1 by Moody's Investors Service, Inc and BB by Fitch Ratings, Inc. If our credit ratings are lowered, borrowing costs for future long-term debt or short-term credit facilities may increase and our financing options, including our access to the unsecured credit market, could be limited. In addition, macroeconomic conditions such as increased volatility or disruption in the credit markets, including the recent volatility due, in part, to the COVID-19 pandemic, could adversely affect our ability to obtain financing or refinance existing debt on terms that would be acceptable to us.

Risks Relating to Our Industry

Our revenues are influenced by economic conditions that impact consumer spending and consumer confidence.

Apparel is a cyclical industry that is dependent upon the overall level of consumer spending and consumer confidence. Consumer purchases of discretionary items, including our products, generally decline during periods when disposable income is adversely affected, there is economic uncertainty or volatility or during recessionary periods. Our wholesale customers anticipate and respond to adverse changes in economic conditions and uncertainty by closing doors, reducing inventories, canceling orders or increasing promotional activity. Our brand-dedicated stores are also affected by these conditions, which may lead to a decline in consumer traffic and spending in these stores. As a result, factors that diminish consumer spending and confidence in any of the markets in which we compete, particularly deterioration in general economic conditions, consumer credit availability, consumer debt levels, inflation, the impact of foreign exchange fluctuations on tourism and tourist spending, volatility in investment returns, fear of unemployment, increases in energy costs or tax or interest rates, housing market downturns, fear about and impact of

pandemic illness (such as the impact of the COVID-19 pandemic, including reduced store traffic and widespread temporary store closures), and other factors such as acts of war, natural disasters or terrorist or political events that impact consumer confidence, could reduce our sales and adversely affect our business and financial condition through their impact on our wholesale customers as well as direct sales.

The COVID-19 pandemic has negatively impacted the global economy, disrupted global supply chains and created significant volatility and disruption of financial markets. The extent of the impact of the COVID-19 pandemic on our operational and financial performance, including our ability to execute our business strategies and initiatives in the expected time frame, will depend on future developments, including the duration and spread of the pandemic, related restrictions on travel and the related impact on consumer confidence and spending, and the extent of any recession resulting from the pandemic, all of which are uncertain and cannot be predicted. For example, as the number of people affected by the COVID-19 pandemic continues to grow, consumer fear about becoming ill with the disease and recommendations and/or mandates from federal, state and local authorities to avoid large gatherings of people or self-quarantine may continue to increase, which will adversely affect traffic to our and our customer's stores. Any significant reduction in customer visits to, and spending at, our and our customer's stores caused by COVID-19 would result in a loss of sales and profits and other material adverse effects. An extended period of global supply chain and economic disruption could materially affect our business, results of operations, access to sources of liquidity and financial condition.

Intense competition in the global apparel industry could lead to reduced sales and prices.

We face a variety of competitive challenges in the global apparel industry from a variety of companies, and competition has increased over the years due to factors such as:

- the international expansion and increased presence of vertically integrated specialty stores;
- expansion into e-commerce by existing and new competitors;
- the proliferation of private labels and exclusive brands offered by department stores, chain stores and mass channel retailers;
- the introduction of lines of jeans, athleisure and casual apparel by well-known and successful athletic wear companies; and
- the transition of apparel companies who traditionally relied on wholesale distribution channels into their own retail distribution network.

In addition, some of these competitors have greater financial, supply, distribution and marketing resources and may be able to adapt to changes in consumer preferences or retail requirements more quickly or devote greater resources to the building and sustaining of their brand equity and the marketing and sale of their products both in stores and online. In addition, some of these competitors may be able to achieve lower product costs or adopt more aggressive pricing and discounting policies. As a result, we may not be able to compete as effectively with them and may not be able to maintain or grow the demand for our products. Failure to compete effectively due to these factors could reduce our sales and adversely affect our business and financial condition.

The success of our business depends upon our ability to forecast and respond timely to consumer demand and market conditions and offer on-trend and new and updated products at attractive price points.

The global apparel industry is characterized by ever-changing fashion trends and consumer preferences, including the increasing shift to digital brand engagement and social media communication, and by the rapid replication of new products by competitors. The apparel industry is also impacted by changing consumer preferences regarding spending categories generally, including shifts away from traditional consumer spending and towards “experiential” spending and sustainable products. As a result, our success depends in large part on our ability to develop, market and deliver innovative and stylish products at a pace, intensity and price competitive with other brands in the markets in which we sell our products. In addition, we must create products at a range of price points that appeal to the consumers of both our wholesale customers and our dedicated retail stores and e-commerce sites situated in each of our diverse geographic regions. Our development and production cycles take place prior to full visibility into all of these factors for the coming seasons. Failure on our part to forecast and respond timely to consumer demand and market conditions and to regularly and rapidly develop innovative and stylish products and update core products could limit sales growth, adversely affect retail and consumer acceptance of our products and negatively impact the consumer traffic in our dedicated retail stores. In addition, if we fail to accurately forecast consumer demand, we may experience excess inventory levels, which may result in inventory write-downs and the sale of excess inventory at discounted prices. This could have an adverse effect on the image and reputation of our brands and could adversely affect our gross margins. For example, if sales do not meet expectations because of unexpected effects on inventory supply and consumer demand caused by the COVID-19 pandemic, too much inventory may cause excessive markdowns and, therefore, lower-than-planned margins. Conversely, if we underestimate consumer demand for our products, we may experience inventory shortages, which could delay shipments to customers, negatively impact retailer

and consumer relationships and diminish brand loyalty. Moreover, our newer products may not produce as high a gross margin as our traditional products and thus may have an adverse effect on our overall margins and profitability.

The global apparel industry is subject to intense cost and pricing pressure.

The apparel industry is characterized by low barriers to entry for both suppliers and marketers, global sourcing through suppliers located throughout the world, trade liberalization, continuing movement of product sourcing to lower cost countries, regular promotional activity, and the ongoing emergence of new competitors with widely varying strategies and resources. These factors have contributed, and may continue to contribute in the future, to intense pricing pressure and uncertainty throughout the supply chain. Pricing pressure has been exacerbated by the variability of raw materials in recent years. This pressure could have adverse effects on our business and financial condition, including:

- reduced gross margins across our product lines and distribution channels;
- increased retailer demands for allowances, incentives and other forms of economic support; and
- increased pressure on us to reduce our production costs and operating expenses.

Increases in the price or availability of raw materials could increase our cost of goods and negatively impact our financial results.

The principal fabrics used in our products include cotton, blends, synthetics and wools. The prices we pay our suppliers for our products are dependent in part on the market price for raw materials used to produce them, primarily cotton. The price and availability of cotton may fluctuate substantially, depending on a variety of factors, including demand, acreage devoted to cotton crops and crop yields, weather, supply conditions, transportation costs, energy prices, work stoppages, government regulation and policy, economic climates, market speculation compliance with our working condition, environmental protection, and other standards, and other unpredictable factors. Any and all of these factors may be exacerbated by global climate change. Cotton prices suffered from unprecedented variability and uncertainty in prior years and may fluctuate significantly again in the future. In the event of a significant disruption or unavailability in the supply of the fabrics or raw materials used by our vendors in the manufacture of our products, our vendors might not be able to locate alternative suppliers of materials of comparable quality at an acceptable price. In addition, prices of purchased finished products also depend on wage rates in the regions where our contract manufacturers are located, as well as freight costs from those regions. Fluctuations in wage rates required by legal or industry standards could increase our costs. Increases in raw material costs or wage rates, unless sufficiently offset by our pricing actions, may cause a decrease in our profitability and negatively impact our sales volume. These factors may also have an adverse impact on our cash and working capital needs as well as those of our suppliers.

Our business is subject to risks associated with sourcing and manufacturing overseas, as well as risks associated with potential tariffs or a global trade war.

We import materials and finished garments into all of our operating regions. Our ability to import products in a timely and cost-effective manner may be affected by conditions at ports or issues that otherwise affect transportation and warehousing providers, such as port and shipping capacity, labor disputes and work stoppages, political unrest, security incidents, severe weather, or security requirements in the United States and other countries. These issues could delay importation of products or require us to locate alternative ports or warehousing providers to avoid disruption to our customers. These alternatives may not be available on short notice or could result in higher transportation costs, which could have an adverse impact on our business and financial condition, specifically our gross margin and overall profitability.

Substantially all of our import operations are subject to complex custom laws, regulations and tax requirements as well as trade regulations, such as tariffs set by governments through mutual agreements or bilateral actions. In addition, the countries in which our products are manufactured or imported may from time to time impose additional duties, tariffs or other restrictions on our imports or adversely modify existing restrictions. Adverse changes in these import costs and restrictions, or the failure by us or our suppliers to comply with customs regulations or similar laws, could harm our business. In this regard, the increasingly protectionist trade policy in the United States and the Brexit process between the United Kingdom and the European Union have introduced greater uncertainty with respect to future tax and trade regulations.

Changes in tax policy or trade regulations, the disallowance of tax deductions on imported merchandise, or the imposition of new tariffs on imported products, could have an adverse effect on our business and results of operations.

In 2018, the Trump Administration announced tariffs on steel and aluminum imported into the United States, which has resulted in reciprocal tariffs from the European Union on goods, including denim products, imported from the United States. Because we manufacture most of our products outside the United States, these reciprocal tariffs are not expected to have a material impact on our business. The Trump Administration has also imposed tariffs on goods imported from China in connection with China's intellectual property practices and forced technology transfer. The Trump Administration has also negotiated a replacement

trade deal for NAFTA with Mexico and Canada, the USMCA, which may go into force June 1, 2020. Currently, of the products that we sell in the United States, approximately 8% are manufactured in Mexico and less than 2% are manufactured in China. If the Trump Administration follows through on its proposed China tariffs, or if additional tariffs or trade restrictions are implemented by the United States or other countries in connection with a global trade war, the cost of our products manufactured in China or other countries and imported into the United States or other countries could increase, which in turn could adversely affect the demand for these products and have an adverse effect on our business and results of operations.

Risks Relating to Ownership of Our Class A Common Stock

The market price of our Class A common stock may be volatile or may decline steeply or suddenly regardless of our operating performance and we may not be able to meet investor or analyst expectations. You may lose all or part of your investment.

The market price of our Class A common stock may fluctuate or decline significantly in response to numerous factors, many of which are beyond our control, including:

- actual or anticipated fluctuations in our revenues or other operating results;
- variations between our actual operating results and the expectations of securities analysts, investors and the financial community;
- any forward-looking financial or operating information we may provide to the public or securities analysts, any changes in this information or our failure to meet expectations based on this information;
- actions of securities analysts who initiate or maintain coverage of us, changes in financial estimates by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- whether investors or securities analysts view our stock structure unfavorably, particularly our dual-class structure;
- additional shares of Class A common stock being sold into the market by us or our existing stockholders, or the anticipation of such sales;
- announcements by us or our competitors of significant products or features, innovations, acquisitions, strategic partnerships, joint ventures, capital commitments, divestitures or other dispositions;
- changes in operating performance and stock market valuations of companies in our industry, including our vendors and competitors;
- price and volume fluctuations in the overall stock market, including as a result of general economic trends;
- lawsuits threatened or filed against us, or events that negatively impact our reputation;
- developments in new legislation and pending lawsuits or regulatory actions, including interim or final rulings by judicial or regulatory bodies; and
- other events or factors, including those resulting from war, incidents of terrorism, natural disasters, pandemics (including the COVID-19 pandemic), or responses to these events.

In addition, extreme price and volume fluctuations in the stock markets have affected and continue to affect many retail companies' stock prices. Often, their stock prices have fluctuated in ways unrelated or disproportionate to the respective companies' operating performance. In the past, stockholders have filed securities class action litigation following periods of market volatility. If we were to become involved in securities litigation, it could subject us to substantial costs, divert resources and the attention of management from our business and seriously harm our business.

Moreover, because of these fluctuations, comparing our operating results on a period-to-period basis may not be meaningful. You should not rely on our past results as an indication of our future performance. This variability and unpredictability could also result in our failing to meet the expectations of industry or financial analysts or investors for any period. If our revenues or operating results fall below the expectations of analysts or investors or below any forecasts we may provide to the market, or if the forecasts we provide to the market are below the expectations of analysts or investors, the price of our Class A common stock could decline substantially. Such a decline could occur even when we have met any previously publicly stated revenues or earnings forecasts that we may provide.

An active trading market for our Class A common stock may not be sustained.

Our Class A common stock is currently listed on the New York Stock Exchange ("NYSE") under the symbol "LEVI." However, we cannot assure you that an active trading market for our Class A common stock will be sustained. Accordingly, we cannot assure you of the likelihood that an active trading market for our Class A common stock will be maintained, the liquidity

of any trading market, your ability to sell your shares of Class A common stock when desired or the prices that you may obtain for your shares.

Future sales of our Class A common stock by existing stockholders could cause our stock price to decline.

If our existing stockholders, including employees, who obtain equity, sell or indicate an intention to sell, substantial amounts of our Class A common stock in the public market, the trading price of our Class A common stock could decline. As of April 1, 2020 we had outstanding a total of 61,718,601 shares of Class A common stock and 334,475,655 shares of Class B common stock. Of these shares, only the shares of Class A common stock are currently freely tradable without restrictions or further registration under the Securities Act, except for any shares held by persons who are not our “affiliates” as defined in Rule 144 under the Securities Act and who have complied with the holding period requirements of Rule 144 under the Securities Act.

Sales of a substantial number of such shares, or the perception that such sales may occur, could cause our stock price to decline or make it more difficult for the holders of our Class A common stock to sell at a time and price that they deem appropriate.

Holders of more than 90% of our Class B common stock have contractual rights, subject to certain conditions, to require us to file registration statements for the public resale of the shares of Class A common stock issuable upon conversion of their Class B common stock, or to include such shares in registration statements that we may file.

The dual class structure of our common stock concentrates voting control with descendants of the family of Levi Strauss, who have the ability to control the outcome of matters submitted for stockholder approval, which will limit your ability to influence corporate matters and may depress the trading price of our Class A common stock.

Our Class B common stock, which is entitled to ten votes per share, is primarily owned by descendants of the family of our founder, Levi Strauss, and their relatives and trusts established for their behalf. Collectively, these persons have the ability to control the outcome of stockholder votes, including the election of our board of directors and the approval or rejection of a merger, change of control or other significant corporate transaction. In addition, so long as any shares of Class B common stock remain outstanding, the approval of the holders of a majority of our then-outstanding Class B common stock (or, in certain cases, a majority of our then-outstanding Class A common stock and Class B common stock, voting together as a single class) will be required in order for us to take certain actions.

This control may adversely affect the market price of our Class A common stock. In addition, certain index providers have announced restrictions on including companies with multiple-class share structures in certain of their indexes. S&P Dow Jones and FTSE Russell have recently announced changes to their eligibility criteria for inclusion of shares of public companies on certain indices, including the S&P 500. These changes exclude companies with multiple classes of shares of common stock from being added to such indices. In addition, several stockholder advisory firms have announced their opposition to the use of multiple class structures. As a result, the dual class structure of our common stock may prevent the inclusion of our Class A common stock in such indices and may cause stockholder advisory firms to publish negative commentary about our corporate governance practices or otherwise seek to cause us to change our capital structure. Any such exclusion from indices could result in a less active trading market for our Class A common stock. Any actions or publications by stockholder advisory firms critical of our corporate governance practices or capital structure could also adversely affect the value of our Class A common stock.

We believe having a long-term-focused, committed and engaged stockholder base provides us with an important strategic advantage, particularly in our business, where our more than 165-year history contributes to the iconic reputations of our brands. However, the interests of these stockholders may not always be aligned with each other or with the interests of our other stockholders. By exercising their control, these stockholders could cause our company to take actions that are at odds with the investment goals or interests of institutional, short-term or other non-controlling investors, or that have a negative effect on our stock price. Further, because these stockholders control the majority of our Class B common stock, we might be a less attractive takeover target, which could adversely affect the market price of our Class A common stock.

If securities or industry analysts either do not publish research about us or publish inaccurate or unfavorable research about us, our business or our market, or if they adversely change their recommendations regarding our Class A common stock, the trading price or trading volume of our Class A common stock could decline.

The trading market for our Class A common stock is be influenced in part by the research and reports that securities or industry analysts may publish about us, our business, our market or our competitors. If one or more of the analysts initiate research with an unfavorable rating or downgrade our Class A common stock, provide a more favorable recommendation about our competitors or publish inaccurate or unfavorable research about our business, our Class A common stock price would likely decline. If any analyst who may cover us were to cease coverage of us or fail to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause the trading price or trading volume of our Class A common stock to decline.

Future securities issuances could result in significant dilution to our stockholders and impair the market price of our Class A common stock.

Future issuances of our Class A common stock or the conversion of a substantial number of shares of our Class B common stock, or the perception that these issuances or conversions may occur, could depress the market price of our Class A common stock and result in dilution to existing holders of our Class A common stock. Also, to the extent stock-based awards are issued or become vested, there will be further dilution. The amount of dilution could be substantial depending upon the size of the issuances or exercises. Furthermore, we may issue additional equity securities that could have rights senior to those of our Class A common stock. As a result, purchasers of Class A common stock bear the risk that future issuances of debt or equity securities may reduce the value of such shares and further dilute their ownership interest.

As of February 23, 2020, there were 7,306,755 shares of Class A common stock and 13,166,993 shares of Class B common stock issuable pursuant to restricted stock units ("RSUs"), performance restricted stock units ("PRSUs") and stock appreciation rights ("SARs") that may be settled in shares of our Class A or Class B common stock. All of the shares of Class A common stock issuable upon exercise or settlement of such awards, or upon the conversion of shares of Class B common stock issuable upon exercise or settlement of such awards, are registered for public resale under the Securities Act. Accordingly, these shares will be able to be freely sold in the public market upon issuance as permitted by any applicable vesting requirements, and subject to compliance with applicable securities laws.

Holders of more than 90% of our Class B common stock have contractual rights, subject to certain conditions, to require us to file registration statements for the public resale of the shares of Class A common stock issuable upon conversion of their Class B common stock, or to include such shares in registration statements that we may file.

The requirements of being a public company may strain our resources, result in more litigation and divert management's attention.

Although we have made filings with the SEC for many years, as a newly public company we are subject to the additional reporting requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, the Dodd-Frank Wall Street Reform and Consumer Protection Act, the listing requirements of the NYSE and other applicable securities rules and regulations. For example, we are required to file proxy statements under Section 14 of the Exchange Act. Complying with these rules and regulations has increased and will increase our legal and financial compliance costs, make some activities more difficult, time consuming or costly and increase demand on our systems and resources. As a result, management's attention may be diverted from other business concerns, which could adversely affect our business and operating results. We may also need to hire additional employees or engage outside consultants to comply with these requirements, which will increase our costs and expenses.

In addition, changing laws, regulations and standards relating to corporate governance and public disclosure are creating uncertainty for public companies, increasing legal and financial compliance costs and making some activities more time consuming. These laws, regulations and standards are subject to varying interpretations, in many cases due to their lack of specificity, and, as a result, their application in practice may evolve over time as new guidance is provided by regulatory and governing bodies. This could result in continuing uncertainty regarding compliance matters and higher costs necessitated by ongoing revisions to disclosure and governance practices. We intend to invest resources to comply with evolving laws, regulations and standards, and this investment may result in increased general and administrative expenses and a diversion of management's time and attention from revenue-generating activities to compliance activities. If our efforts to comply with new laws, regulations and standards differ from the activities intended by regulatory or governing bodies due to ambiguities related to their application and practice, regulatory authorities may initiate legal proceedings against us and our business may be adversely affected.

These new rules and regulations may make it more expensive for us to obtain director and officer liability insurance and, in the future, we may be required to accept reduced coverage or incur substantially higher costs to obtain coverage. These factors could also make it more difficult for us to attract and retain qualified members of our board of directors, particularly to serve on our audit committee and compensation committee, and qualified executive officers.

By disclosing information in the various filings required of a public company, our business and financial condition will become more visible, which may result in threatened or actual litigation, including by competitors and other third parties. If those claims are successful, our business could be seriously harmed. Even if the claims do not result in litigation or are resolved in our favor, the time and resources needed to resolve them could divert our management's resources and seriously harm our business.

Delaware law and provisions in our amended and restated certificate of incorporation and amended and restated bylaws could make a merger, tender offer or proxy contest difficult, thereby depressing the trading price of our Class A common stock.

Our amended and restated certificate of incorporation and amended and restated bylaws contain provisions that could depress the trading price of our Class A common stock by acting to discourage, delay or prevent a change of control of our company or

changes in our management that our stockholders may deem advantageous. In particular, our amended and restated certificate of incorporation and amended and restated bylaws:

- establish a classified board of directors so that not all members are elected at one time;
- permit our board of directors to establish the number of directors and fill any vacancies and newly-created directorships;
- authorize the issuance of “blank check” preferred stock that our board of directors could use to implement a stockholder rights plan;
- provide that our board of directors is expressly authorized to make, alter or repeal our bylaws;
- restrict the forum for certain litigation against us to Delaware;
- reflect the dual class structure of our common stock; and
- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders.

Any provision of our amended and restated certificate of incorporation, our amended and restated bylaws or Delaware law that has the effect of delaying or deterring a change in control could limit the opportunity for our stockholders to receive a premium for their shares of Class A common stock, and could also affect the price that some investors are willing to pay for our Class A common stock.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for substantially all disputes between us and our stockholders, which could limit our stockholders’ ability to obtain a favorable judicial forum for disputes with us or our directors, officers or employees.

Our amended and restated certificate of incorporation provides that the Court of Chancery of the State of Delaware is the exclusive forum for the following types of actions or proceedings under Delaware statutory or common law:

- any derivative action or proceeding brought on our behalf;
- any action asserting a breach of fiduciary duty;
- any action asserting a claim against us arising under the Delaware General Corporation Law, our amended and restated certificate of incorporation or our amended and restated bylaws; and
- any action asserting a claim against us that is governed by the internal-affairs doctrine.

This provision would not apply to suits brought to enforce a duty or liability created by the Exchange Act or any other claim for which the U.S. federal courts have exclusive jurisdiction.

This exclusive-forum provision may limit a stockholder’s ability to bring a claim in a judicial forum that it finds favorable for disputes with us or our directors, officers or employees, which may discourage lawsuits against us and our directors, officers and employees. If a court were to find this exclusive forum provision in our amended and restated certificate of incorporation to be inapplicable or unenforceable in an action, we may incur additional costs associated with resolving the dispute in other jurisdictions, which could seriously harm our business.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS
(a) Recent Sales of Unregistered Securities

None.

(b) Use of Proceeds from Securities

The Registration Statement on Form S-1 (File No. 333-229630) for our IPO of our Class A common stock was declared effective by the SEC on March 20, 2019. There has been no material change in the planned use of the IPO proceeds as described in our final prospectus filed with the SEC on March 21, 2019 pursuant to Rule 424(b)(4) of the Securities Act. The proceeds from our IPO have been used for general corporate purposes, including working capital, operating expenses and capital expenditures. We have broad discretion over the uses of the net proceeds and may use a portion for acquisitions or other strategic investments, although we do not currently have any plans to do so.

(c) Purchases of Equity Securities by the Issuer and Affiliated Purchasers

Period	(a) Total number of shares (or units) purchased ⁽¹⁾	(b) Average price paid per share (or unit) ⁽²⁾	(c) Total number of shares (or units) purchased as part of publicly announced plans or programs	(d) Maximum number (or approximate dollar value) of shares (or units) that may yet be purchased under the plans or programs
November 25, 2019 - December 29, 2020	—	—	—	—
December 30, 2020 - January 26, 2020	—	—	—	—
January 27, 2020 - February 23, 2020	1,859,248	\$ 19.92	1,859,248	\$ 62,966,451
Total	1,859,248	\$ 19.92	1,859,248	\$ 62,966,451

(1) On January 28, 2020, the Board of Directors authorized a program to repurchase up to \$100 million of our Class A common stock with no expiration date. Under the program, shares will be repurchased pursuant to a Rule 10b5-1 plan.

(2) The average price paid per share excludes any broker commissions.

Item 3. DEFAULTS UPON SENIOR SECURITIES

None.

Item 4. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None.

Item 6. EXHIBITS

Exhibit Number	Description of Document	Incorporated by Reference			
		Form	SEC File No.	Exhibit	Filing Date
3.1	Amended and Restated Certificate of Incorporation of the Registrant	8-K	001-06631	3.1	3/25/2019
3.2	Amended and Restated Bylaws of the Registrant	8-K	001-06631	3.2	3/25/2019
10.1	Separation agreement dated as of February 16, 2020 between the Company and Roy Bagattini. Filed herewith.				
31.1	Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.				
31.2	Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. Filed herewith.				
32.1†	Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. Furnished herewith.				
101.INS	XBRL Instance Document. Filed herewith.				
101.SCH	XBRL Taxonomy Extension Schema Document. Filed herewith.				
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document. Filed herewith.				
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document. Filed herewith.				
101.LAB	XBRL Taxonomy Extension Label Linkbase Document. Filed herewith.				
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document. Filed herewith.				

† The certification attached as Exhibit 32.1 accompanies this Quarterly Report on Form 10-Q, is not deemed filed with the Commission and is not to be incorporated by reference into any filing of Levi Strauss & Co. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended, whether made before or after the date of this Quarterly Report on Form 10-Q, irrespective of any general incorporation language contained in such filing.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: April 7, 2020

LEVI STRAUSS & CO.
(Registrant)

By: /s/ GAVIN BROCKETT
Gavin Brockett
Senior Vice President and Global Controller
(Principal Accounting Officer and Duly Authorized Officer)

General Release Agreement

YOU ARE ADVISED TO CONSULT AN ATTORNEY ABOUT THIS AGREEMENT

This General Release Agreement (this “Agreement”) sets forth the agreement between you and Levi Strauss & Co. (“LS&Co.” or the “Company”) regarding Separation Pay and benefits and your release of claims in connection with the cessation of your employment with LS&Co.

You and LS&Co. agree:

1. **Separation Date:** Your employment with LS&Co. will terminate on February 16, 2020 (your “Separation Date”). Whether or not you accept this Agreement, you will be paid (or you have been paid) all wages, including accrued and unused vacation, due to you as of your Separation Date. By executing this Agreement, you acknowledge that you have received all wages and benefits due to you as of the Separation Date.
2. **Separation Pay.** In consideration of your acceptance of this Agreement, you will receive \$1,248,000.00 (one-million two-hundred and forty-eight thousand dollars and zero cents), representing 78 weeks of base pay, in Separation Pay. This pay will be subject to withholding and deductions for all taxes required by law and those deductions you have already authorized in writing, will be treated as supplemental wages, and will be paid out in biweekly increments during normal payroll periods of the Company.
3. **Group Health Benefits.** Except for COBRA continuation, your group health benefits end as of February 29, 2020. Whether or not you sign this Agreement, you may be eligible to continue receiving group health benefits pursuant to the federal COBRA law. The details of the COBRA continuation benefit are provided with your exit package.

Provided you sign and do not timely revoke this Agreement, if you are eligible for and properly elect continued group medical coverage through COBRA, then LS&Co. will subsidize the cost of medical coverage under COBRA for up to 78 weeks following your February 16, 2020 Separation Date (the “Separation Period”). The subsidy will reduce the COBRA coverage cost so that you will pay an amount equivalent to the contribution required for active employees, plus a 2% administrative fee. When the Separation Period ends, you must pay the full cost of medical coverage plus a 2% administrative fee to continue coverage for the remaining COBRA period. The subsidy also will cease when you accept other employment and become eligible for group medical benefits through another employer, whether or not you elect to participate in such plan. There is no COBRA subsidy for dental or vision benefits.

4. **Additional Benefits Coverage.**
 - a. **Life Insurance.** During the Separation Period, LS&Co. will provide you with free basic life insurance with a death benefit equal to your base salary as of the Separation Date.
 - b. **Equity Awards.** If you have (i) been granted a Stock Appreciation Right or Restricted Stock Unit award from the Company, (ii) such Stock Appreciation Right or Restricted Stock Unit award is subject to time-based vesting, and (iii) your Separation Date is at least twelve (12) months after the date of grant of such Stock Appreciation Right or Restricted Stock Unit award, the Stock Appreciation Right or Restricted Stock Unit award will continue to vest for the duration of the Separation Period.
 - c. **Prorated Annual Bonus.** You will be entitled to a prorated annual bonus for fiscal year 2020 based on actual Company financial results and 100% of your individual component. Such bonus will be paid in the first quarter of fiscal year 2021 at the time annual bonuses are paid to continuing employees.
 - d. **One-Year Ayco Benefits Continuation.** For a period of one-year following your Separation Date, you will continue to be eligible for Ayco Financial Services benefits.
 - e. **Executive Physical Exam Continuation.** For a period of one-year following your Separation Date, you will continue to be eligible to receive executive physical exam benefits. Spousal benefits shall not be included in this continued benefit.
 - f. **E&Y Tax Assistance Continuation.** For tax years 2020 and 2021, you will continue to be eligible for personal tax assistance from Ernst & Young, in the same manner as when you were employed by LS&Co.
 5. **General Release and Waiver of Claims**
 - a. In consideration of the separation pay and benefits (collectively referred to as “Separation Benefits”) to be provided pursuant to this Agreement, you release and forever discharge LS&Co., its subsidiaries and affiliates, and each of their parent organizations, predecessors, successors and assigns, and all of its and their past and present officers,
-

directors, employees, agents, attorneys, associates, insurers and employee benefit plans (collectively, the "Company Releasees") from any and all claims, demands, liabilities, damages or causes of action arising out of facts or occurrences before the date you sign this Agreement, whether known or unknown to you, including claims arising out of your employment with the Company or any of its wholly-owned U.S. subsidiaries and your separation from employment (collectively, the "Claims").

- b. You understand that by releasing the Company Releasees from each and every Claim, you are giving up rights to bring all Claims against any Company Releasee based on any action, decision or event occurring before the date this Agreement is signed. This release covers all Claims against the Company Releasees, including but not limited to those arising under tort, contract and local, state or federal statute, including, but not limited to (as amended), Title VII of the Civil Rights Act of 1964; the Age Discrimination in Employment Act of 1967; the Equal Pay Act; section 1981 of the Civil Rights of 1864; the Employee Retirement Income Security Act; the Family and Medical Leave Act of 1993; the Fair Labor Standards Act; the American's with Disabilities Act; the Worker Adjustment and Retraining Notification Act; whistleblower protection statutes; and any other federal, state, tribal or local law, statute, regulation or ordinance concerning employment, including termination of employment, including, but not limited to, laws prohibiting discrimination based on race, creed, color, religion, national origin, sex, marital status, sexual orientation, age, disability, HIV/AIDS status, genetic information, military service, or veteran status, or any other protected classification; and claims for monetary damages, attorney's fees, litigation costs or other monetary relief.
- c. You understand that notwithstanding the above, nothing in this Agreement is intended to unlawfully release or waive any of your rights under any laws or to prevent, impede, or interfere with your ability right to: (i) provide truthful testimony if under subpoena to do so, (ii) file a charge with any state or federal agency or participate or cooperate in an agency investigation (except that you acknowledge that you cannot recover money in connection with any such charge or investigation), (iii) challenge the validity of this release, or (iv) pursue any rights or claims that may arise after the date this Agreement is signed.

Further excluded from this release are any claims you may have for:

- a) unemployment benefits under applicable law;
- b) workers' compensation insurance benefits;
- c) continued participation in certain of the Company's group health benefit plans pursuant to COBRA, if applicable, and/or any applicable state law counterpart to COBRA;
- d) any benefit entitlements vested as of your Separation Date, pursuant to written terms of any applicable employee benefit plan sponsored by the Company; and
- e) any claims that are not waivable as a matter of applicable law.

Section 1542 Waiver - You understand and agree that this release covers not only claims presently known to you, but also all unknown or unanticipated claims, rights, demands, actions, obligations, liabilities, and causes of action of every kind and character that would otherwise come within the scope of the released claims. You understand that you may hereafter discover facts different from what you now believe to be true, which if known, could have materially affected this Agreement, but you nevertheless waive any claims or rights based on different or additional facts. You knowingly and voluntarily waive any and all rights or benefits under the terms of Section 1542 of the Civil Code of the State of California (or any law of similar effect in any jurisdiction other than California), which provides:

"A general release does not extend to claims that the creditor or releasing party does not know or suspect to exist in his or her favor at the time of executing the release and that, if known by him or her, would have materially affected his or her settlement with the debtor or released party."

6. **Confidential Information.** You hereby acknowledge that you are bound by all confidentiality agreements that you entered into with the Company and/or any and all of the Company Releasees (which agreements are incorporated into this Agreement by this reference); that as a result of your employment you have had access to the Confidential Information (as defined in such agreement(s)); that you will hold all such Confidential Information in strictest confidence; and that you may not make any use of such Confidential Information on behalf of yourself or any third party. By signing this Agreement, you further confirm that you have delivered to the Company all documents and data of any nature containing or pertaining to such Confidential Information and that you have not taken with you any such documents or data or any reproduction.
7. **Non-Solicitation.** For 12 months immediately following your Separation Date, you will not directly or indirectly solicit or induce any employee of the Company or any Company Releasee to leave employment with that entity or person. The
-

Company has advised you, and hereby advises you, that, subject to any durational or other limitations imposed by law in a particular jurisdiction, the Company will enforce this section to the fullest extent legally permissible.

8. **Non-Disparagement.** You promise that you will not at any time make or publish any statements or comments that injure the reputation or goodwill of any Company Releasee. LS&Co. agrees that no current members of the Board of Directors, Executive Committee and/or Global Leadership Team will at any time make or publish any statements or comments that injure your reputation.
9. **Employment with Competitor.** The amounts payable and other benefits provided to you under this Agreement will immediately cease in the event that you accept employment with a Competitor of the Company (as such Competitors are defined in Exhibit "A" to this Agreement, which is attached and incorporated by reference), or if you breach any of your material obligations under this Agreement, including without limitation your obligations regarding Confidentiality, Non-Solicitation and Non-Disparagement, as set for the above in paragraphs 6-8 of this Agreement.
10. **Re-Employment.** If you are re-employed by LS&Co. before you receive all of your Separation Payments, the remaining payments will cease as of your re-employment or return date. In addition, LS&Co. will upon your rehire or return, discontinue the COBRA subsidy described as well as any Life Insurance coverage provided.
11. **Non-Admission of Liability.** This Agreement is not an admission by the Company or any other Company Releasee that the Company or any other Company Releasee has acted wrongfully with respect to you or any other person. The Company and other Company Releasees specifically deny any liability for wrongful acts against you or any other person.
12. **Return of Employer Property.** You affirm that you have returned to LS&Co. all documents, notes, reports, plans, keys, computers, office equipment, security cards and/or identification cards, charge cards, customer lists, computer or other files, employee directories, product information and other documents, copies of documents and property which were created, developed, generated or received by you during your employment or which are Company property, whether or not such items are confidential to LS&Co., unless the return of a particular item has been expressly excepted by the Company in writing.
13. **Further Cooperation.** You agree to cooperate with LS&Co. in connection with any pending or future investigation or litigation in which LS&Co. or other Company Releasees believe you are an individual with relevant knowledge, subject to and without waiving your rights specified in Section 5(C) above.
14. **Confidentiality of Agreement.** You agree to keep confidential this Agreement and will not reveal its contents to anyone except your attorney, your spouse/partner or your accountant, or as required by law or legal process.
15. **Consideration and Revocation Periods.** You agree that you have been provided a period of greater than 21 calendar days to consider whether to accept this Agreement. ***This Agreement must be signed no earlier than your separation Date on February 16, 2020 and no later than February 23, 2020.***

Please send your signed Agreement to:

Seth Jaffe
Executive Vice President & General Counsel
Levi Strauss & Co.
1155 Battery Street
San Francisco, California 94111

Alternatively, you may send your signed Agreement to Mr. Jaffe by electronic mail at his LS&Co. email address: sjaffe@levi.com.

If you have not signed and returned this Agreement within this time period, the offer of this Agreement will expire. In addition, you have 7 calendar days after you sign this Agreement to revoke it, which you may do by delivering a written notification of revocation to Mr. Jaffe at the address or email address shown above. If you revoke within 7 days, you will receive no benefits under this Agreement.

16. **Effect of Failure to Sign or of Revocation.** You acknowledge that if (i) you do not sign this Agreement; or (ii) you do sign the Agreement but thereafter timely revoke, you will still be terminated as of your Separation Date and you will not be eligible to receive any Separation Benefits.
-

17. **Counterparts/Photocopies/PDFs.** This Agreement may be executed in counterparts, and each counterpart, when executed, shall have the efficacy of a signed original. Photographic copies (including PDFs) of such signed counterparts may be used in lieu of the originals for any purpose.
18. **Additional Understandings and Acknowledgements. You further acknowledge and agree:**
- A. You are advised to consult with an attorney of your own choosing before deciding whether to execute this Agreement;
 - B. You have entered into this Separation Agreement knowingly and voluntarily, having given the matter full and careful consideration;
 - C. The Separation Benefits provided to you under this Separation Agreement are in addition to those you are entitled to receive apart from this Agreement;
 - D. As of your Separation Date, you have received all pay to which you are entitled, including overtime if any, as well as all accrued PTO/vacation time.
 - E. You have not relied upon any prior or contemporaneous promises or representations in choosing to execute this Agreement, but have relied solely upon the promises and representations expressed.
19. **Severability.** The provisions of this Agreement are severable, and if any provision is found to be unenforceable, the other provisions will remain fully valid and enforceable.
20. **Governing Law.** This Agreement will be construed under federal law and, where applicable, the laws of the State of California without reference to its conflicts of choice of law rules.
21. **Entire Agreement.** This Agreement is an integrated document and supersedes any prior or contemporaneous agreement, understanding or representation concerning its subject matter. In particular, you acknowledge and agree that any prior offer of participation in the Levi Strauss & Co. Separation Plan for the Worldwide Leadership Team (effective March 1, 2017) (the “Plan”) has been withdrawn and that, in consideration of your acceptance of this Agreement, you are not eligible to receive any separation pay or benefits under the Plan.

PLEASE READ CAREFULLY. THIS AGREEMENT INCLUDES A GENERAL RELEASE OF ALL KNOWN AND UNKNOWN CLAIMS. I AM ENTERING INTO THIS AGREEMENT VOLUNTARILY, HAVING BEEN ADVISED OF MY RIGHT TO CONSULT AN ATTORNEY BEFORE SIGNING THIS AGREEMENT. I AM NOT RELYING ON ANY REPRESENTATION OR UNDERSTANDING NOT STATED IN THIS AGREEMENT.

You may NOT sign or return this Agreement prior to your Separation date.

AGREED:

Dated: February 20, 2020.

ROY BAGATTINI

/s/ Roy Bagattini

AGREED:

Dated: February 4, 2020.

LEVI STRAUSS & CO.

By: /s/ Chip Bergh

Chip Bergh
President and CEO

EXHIBIT A

(List of Competitors as of Effective Date of Agreement)

- VF Corporation
- Gap, Inc.
- Ralph Lauren Corporation
- PVH Corp.
- American Eagle Outfitters
- Kontoor Brands, Inc.

**CERTIFICATION OF CHIEF EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Charles V. Bergh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Levi Strauss & Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ CHARLES V. BERGH

Charles V. Bergh

President and Chief Executive Officer

Date: April 7, 2020

**CERTIFICATION OF CHIEF FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Harmit Singh, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Levi Strauss & Co.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ HARMIT SINGH

Harmit Singh

Executive Vice President and Chief Financial Officer

Date: April 7, 2020

**CERTIFICATION BY THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. Section 1350), as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, Charles V. Bergh, Chief Executive Officer of Levi Strauss & Co. (the "Company"), and Harmit Singh, Chief Financial Officer of the Company, each hereby certifies that, to the best of his knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended February 23, 2020, to which this Certification is attached as Exhibit 32.1 (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of, and for, the periods presented in the Report.

/s/ CHARLES V. BERGH

Charles V. Bergh

President and Chief Executive Officer

April 7, 2020

/s/ HARMIT SINGH

Harmit Singh

Executive Vice President and Chief Financial Officer

April 7, 2020