Corrected Transcript

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Under Armour, Inc. (UA)

Q1 2023 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Thank you for standing by, and welcome to the Under Armour, Inc. Q1 2023 Earnings Webcast and Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

I would now like to turn the conference over to Lance Allega, SVP, IR and Corporate Development. Mr. Allega, please go ahead.

Lance Allega
Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.

Thank you, and good morning, everyone. Thanks for joining us on Under Armour's first quarter fiscal 2023 earnings call. The information provided on today's call will include forward-looking statements that reflect Under Armour's view of its current business as of August 3, 2022.

Statements made are subject to risks and uncertainties that are detailed in documents regularly filed with the SEC and the Safe Harbor statement included in this morning's press release, both of which can be found on our website at about.underarmour.com.

It's important to note that the ongoing uncertainty related to COVID-19 and its potential effects on global retail environment could continue to impact our business results moving forward.

We may reference non-GAAP financial information on today's call, including adjusted in currency-neutral terms, which are defined under SEC rules in this morning's press release. You may also hear us refer to GAAP to amounts under US GAAP. Reconciliations of GAAP to non-GAAP measures can also be found in our press release, which identify and quantify all excluded items and provides our view about why we believe this information is helpful to investors.

Joining us on today's call will be Under Armour Executive Chairman and Brand Chief, Kevin Plank; Interim President and CEO, Colin Browne; and CFO, Dave Bergman. Kevin?

Kevin A. Plank

Executive Chairman and Brand Chief, Under Armour, Inc.

Thanks, Lance, and good morning, everyone. It's my great privilege to be with you on the call today, joining Colin and Dave, who will walk through our results and provide some context as how we're thinking about the year.

I'm going to kick us off though, here at the top and cover some of the broader aspects of where we are with the brand right now and the opportunities and potential that we see for Under Armour. Following my comments, I'll be hopping off the call and let Colin and Dave get to their scripts and handle Q&A.

So, throughout the pandemic and general uncertainties that the last several years have brought us, we've become quite adept at working through incredibly dynamic environments. And during this time, we strengthened our strategic, operational and financial foundations.

But along the way, we've never wavered in putting the Under Armour brand and our relationship with athletes first. The parts of our business and strategy that made us successful we will, of course, focus on reclaiming, but we are not trying to recreate the success we've had in the past.

We're a better business today with a stronger balance sheet, wiser leadership and have been tested. We have no delusions of "getting back" to any previous chapter in our past. We are both looking and moving forward. So, with changes at constant backdrop, the ability to pivot and evolve is critical to ensuring future success. And we have exercised and strengthened this adept-to-change muscle that any eternal brand requires.

In this respect, let me begin with an update in our search for UA's next CEO. The Board and I are focused on our search for a permanent CEO, a proven leader capable of amplifying our existing strategy at a now large and mature public company, a professional who can technically do the job, while simplifying the definition of success in that job. The fundamentals are central, but so is our inspiration.

Our next chapter will be met with simplicity of understanding that our role is to inspire our athletes, teammates, customers and all stakeholders to love UA. We believe this will drive more robust top-line growth and increased profitability over the long-term. Take care of the brand, optimize the assets we already have as there are so many from partnerships to athlete relationships, to being opportunistic where it makes sense, drive love for the UA brand, and the rest will follow. That's the message for our next CEO.

And to be clear, Under Armour is not standing still, nor without leadership. In fact, in his first 60 days, Colin Browne, our Interim President and CEO, has done an outstanding job stepping in to manage our business and the team of 17,000 strong here at Under Armour.

The board is running a formal process led by Karen Katz, in active search for the terrific queue of proven leaders and high potentials across various industries. The pool we have to choose from is thorough and robust, including Colin. And will make a terrific choice for the next CEO of Under Armour before year's end.

I'd now like to lay out where we are. Proprioception is a word that was used to describe compression, when I first began researching the idea of UA back in 1996, and its meaning still sits with me today. In essence, it describes how compression when worn on the body can create a greater sense of knowing where the body is in space. Well, today at UA, our proprioception is on. And we're fully aware of where UA stands and the opportunities that come with it.

Understanding the incredible resources we now have, that to even try to replicate UA would require a fortune of dollars, decades of time and a relationship with consumers to create a brand feeling that you are not just buying apparel, footwear and accessory, but real science and innovation that as our mission statement reads will make you better.

We are a brand that has 1,400 global UA stores across partners and owned stores around the world, 10,000 points of retail distribution in the United States and authenticity that is undeniable. From this brand being born in a football field at the University of Maryland, we bleed authentic.

The team and league relationships we have in the US alone include more than 450 outfitting contracts with colleges, more than 2,000 contracts with high schools and nearly 1,000 club and travel teams, the overwhelming majority of which pay to have UA on their uniforms.

Our aided brand awareness metrics where we compete are a stunning 92% in the United States, confirmed by more than 600,000 consumers that our insights team has spoken to in the last several years. Breaking that out into the biggest global markets means solid consumer awareness from Germany and the UK to China and Japan. And while the metrics may vary, there's a consistency in who UA is and what we do for athletes.

It means building space suits that can travel into the atmosphere for Virgin Galactic, soccer boots for Trent Alexander-Arnold of Liverpool in the English Premiership as well as building the best football uniforms on the planet for the likes of Notre Dame, Auburn in Wisconsin, as well as cleats and gloves for the greatest football player the planet has ever seen in Tom Brady, who actually turns 45 today, so Happy Birthday, Tom.

It means proving that we're a basketball brand and expect to challenge in this space for the benefit of 29 UA outfitted teams wearing our uniforms and basketball shoes to the NCAA men's and women's tournaments this past March, including the women's national champions, South Carolina Gamecocks, as well as having the NBA scoring champion and perennial All-Star, Joel Embiid wearing UA deep into the playoffs. And oh yeah, having Stephen Curry, the reigning greatest basketball player in the world wearing UA footwear in partnership with building the Curry Brand. To be clear, Under Armour basketball footwear can play.

It's about Major League Baseball from Bryce Harper's 2021 MVP Season, to Juan Soto and Julio Rodriguez facing off with dueling UA gloves and cleats in a spectacular homerun derby leading into the MLB All-Star game a few weeks ago. And all the while doing it with strong brand advocates like Lindsey Vonn and Dwayne "The Rock" Johnson through our Project Rock collaboration who know what the UA brand is cooking.

And as the fuel for these and all UA assets, we have a big budget to work with, including more than $600 million marketing dollars. And we do not feel as if we've optimized this. And we'll continue to reposition and reallocate those dollars to drive brand growth.

This may seem very US-centric, yet our brand presence and athlete stable cover more than 100 countries where UA does business today. But this point underscores how heavily focused we are on ensuring that we win here in North America and have every confidence that we have the tools to do so.

Our cupboard today is full and there is so much to choose from and to build on to. That is why we continue to use the word amplify to describe our go-forward strategy, not a departure from where we've been, but simply amplifying our existing strategy. Building growth for UA where we started in 1996 was hard. Building growth for UA in 2022 is a whole different ball game with a suite of assets, partners, relationships and history with our consumers to pull from.

I'm proud of what we've accomplished, going from a single item into a head-to-toe global authentic on-field sports brand that's unique. We are in this fight. And we'll fight for every fixture, brand location or moment of mind share with young athletes to assure them that we are thinking on their behalf, always problem solving and providing solutions they never knew they needed and once they've tried them, cannot imagine living without.

It's that same problem solving that led to Under Armour's founding, answering the question with a solution of why we would accept sweat-soaked cotton T-shirts beneath our uniforms when a better and frankly simpler solution should exist.

We will be the preeminent innovation company at the intersection of performance and style. We have the resources of established products and relationships with athletes that we'll tap into and give them the most innovative solutions in the world with the great that we have yet to unleash on our behalf.

Under Armour is on its front foot and playing offense. We've spent the last several years building our strong foundation and defense. But sometimes, the best defense is to score another touchdown. We will do both.

Our product teams are hard at work with industry experts that I wouldn't trade with any brand, building the best products and curating the best ideas we find throughout our network, providing the world with one brand destination in UA that they know is aggregating the best ideas in apparel, footwear and accessory innovation into one place, under one roof in our house.

But this will, of course, mean our own in-line innovation first and foremost. And our product pipeline is full. And to that end, this fall we will be launching a new footwear platform we discovered through a very simple athlete insight, one we believe can change the athletic footwear landscape. We will introduce a new technology franchise in a training shoe that we feel can become a signature item for our current $1.5 billion footwear business. We then plan to take this technology to additional footwear categories where we compete.

Opening the aperture, first and foremost means being the most credible and authentic uniform and workout provider of gear, but also includes wearing occasions for our consumers when our athletes are beyond the fields, courts and gyms, and ensuring that they can choose from their closet across performance, and yes, sportswear and even, from time to time, collaborations with brands that make sense, having our core team sport athlete choose from the lot with ease and having it happen to all be UA. This best describes what we mean when we say the amplification of our strategy, meeting our consumers where they are and giving them the ability to love UA in multiple wearing occasions.

This is more than a vision. This is actionable, something we can go after and with the 92% of Americans who know the Under Armour brand expect from us. All of this leads to our relentless belief that the UA brand has more than earned the right to exist. And that we're perfectly positioned as a challenger once again to both those larger and smaller than UA, as we will focus on punching much higher above our weight.

So, to close out, Under Armour is moving forward. We're well tested and disciplined. We have the inspirational fire and freedom to dream bigger. And that's exactly what we will do. The board and I have complete trust in the depth of our management team, our solid business foundation and our ability to push ourselves towards a future of more pronounced profitable growth. We are in the fight and believe we have all the tools that we need to win.

And with that, I'm going to jump off the call, turn it over to Colin and Dave. Thank you all very much.

Colin Browne

Interim President & Chief Executive Officer, Under Armour, Inc.

Thank you, Kevin. I'm incredibly excited by the opportunity to lead this amazing brand and honored by the trust that you and our board of directors have placed in me. This is my first earnings call, so I'd like to take a moment to introduce myself.

I've spent my entire career in this industry. I've lived on three continents, worked in multiple brands and have experience in nearly all facets of the apparel, footwear and retail space. Over the past 10 years, I've focused on operations and supply chain, including the past six years at Under Armour, where I've led key efforts to significantly improve our strategic and operational capabilities and strengthen our powerful foundation and playbook. I believe my experience stands me in good stead to lead this brand through the interim period as we set ourselves up for the next phase of growth.

Even though my role is interim, as Kevin has said, we are not standing still. Over the last couple of months, I've spent significant time meeting with customers and partners and teammates. And I can report that our brand remains strong and that our multiyear efforts to strengthen our core business, is working. Yet cutting to the chase, there is considerably more that we can be doing to maximize larger opportunities in consideration for the Under Armour brand over the near and long term.

To be fair, we've seen some unusual shifts in the retail space over the past two years. In 2020, the world shut down for long periods creating significant revenue headwinds. In contrast, 2021 saw incredibly high pent-up demand, which drove substantial revenue and historical margin gains across our sector. In 2022, following repercussions from last fall's lockdown, we believe an overabundance of product is about to hit the market, specifically as supply chain starts to recover from last year's disruptions.

During the same period, Under Armour ran a constrained model designed to clean the market and prime the brand for future growth. While well intended, and we believe successful in helping to restore brand health, this strategy was further exasperated by COVID-impacted product supply chain and order constraints, along with order cancellations, all conspiring to impact our revenue performance.

As we pivot to our next phase, we are adjusting this model to unleash the brand's full potential. Given that this change coincides with elevated inventories coming into the back half of 2022, we will be vigilant about managing this intersection intelligently and appropriately. Dave will give more on this later.

But as our inventories build through the remainder of fiscal 2023, it's important to keep in mind, the lean base we're comparing against as we lap future quarters. Even so, if you consider inventory versus revenue growth on a three-year basis, at the end of fiscal 2023, we expect our inventory will be up about 10% over that period.

This compares to expected revenue growth in excess of 20% over the same three-year period. So we're encouraged by the progress we're making.

These industry-wide inventory challenges and more significant inflationary pressures make for a cautious consumer outlook for the balance of the year. Accordingly, we assume the market will be very promotional. And we will need to participate in many of these promotions, which is the primary factor for our margin call down.

However, we are taking the time to assess where we're at and where we need to be and how we want to reposition ourselves for more significant top-line growth in years to come. To be clear, our foundation is strong. Our expense base has been reset and our P&L is primed and ready, and capable of greater productivity as we work to invigorate the top-line.

This is about taking our existing core business strategy and amplifying it, scaling our ability more effectively across our direct-to-consumer, international, women's and our footwear businesses. This is about strengthening our innovation engine to deliver products and experiences that inspire and serve athletes better.

It's also about ensuring seamless access to products across our evolving omnichannel environment. And it's also about prioritizing resources to the areas that have the highest growth trajectories, maximizing returns on the investments we are already making and distorting these investments to high-priority areas like our digital capabilities and related DTC enablers, including investments in our order management and retail point-of-sale systems and additional e-comm and consumer journey enhancements.

Indeed, there is a lot going on, and there's a lot we're digging into here. While early days, our teams are empowered with fresh thinking and the freedom to push the bond – beyond the boundaries of what is possible.

Next, and simultaneous to amplifying our core, we're also working to identify new ways – identifying new ways to accelerate broader consideration for the Under Armour brand. We are confident that we are respected as an authentic performance brand capable of empowering an athlete's journey as they train, compete and recover.

Building on this foundation and based on countless conversations with athletes and our customers, their ask is clear. There is also demand for Under Armour across the less sweaty non-elevated heart rate parts of their day. Quite simply, they love wearing our brand and want more access to it, more style, more options and more usage occasions.

We're actioning how Under Armour can best meet these needs carefully and responsibly to build upon the trust and credibility we've earned over the years as a performance brand. This will not require a significant transformation, but incremental evolution to better serve our athletes.

As you can appreciate, I'm 60 days in, so it's early days yet, but I look forward to sharing more details later. Now back to the present, where I'm excited to touch upon some of the highlights of our first quarter.

In apparel, one of our best sellers was our men's Iso-Chill product, a fabric engineered to disperse body heat, making it feel cool to the touch, driving solid momentum in our running business. Another highlight was in our women's business with strength in our Meridian line and our Crossback and Infinity Bras.

Turning to footwear. On the way to his fourth ring, Stephen Curry rocked his Curry 9 throughout the season then switched to the Curry 4 FloTro during the finals, a refreshed nod to what he wore during his second NBA title back in 2017. Fans of the FloTro should be on the lookout for additional releases taking place at the back end of the summer.

In our Team Sports business, our baseball and football cleats have been performing extremely well. And we are looking forward to the back-to-school and the fall sports season. In running, our HOVR Machina 3 shoe has been well-received with initial solid sell-through driven by sales in the Asia Pacific region. In our North American market, we continue to see strength in our UA Charged franchises across Assert, Rogue and Vantage.

We are also excited about our Flow Velociti Elite launch, one of the fastest, high-performing running shoes ever created by Under Armour. This carbon fiber-based marathon-specific shoe balances flexibility and cushioning for maximum speed and efficiency. And it works, as worn by Jordan Tropf, who set a world record for the world's fastest time to complete three marathons in three days, besting the previous mark by over 40 minutes.

And finally, we are incredibly excited about the new training footwear platform, Kevin referenced earlier. And we look forward to delivering game-changing products that connect us even more deeply with our athletes. So to bring my remarks to a close, I will introduce a phrase that kind of defines our transitional strategy to amplify the core and accelerate more.

As we continue to formulate and execute this strategy, I underscore my confidence in the exceptional capabilities of our global team. Even amid the noise this year, we are well positioned to pivot and harness the strengths of our foundation to drive more significant top line growth for Under Armour more consistently in the years ahead. It's time to pivot. It's time to amplify, and it's time to accelerate. Our athletes, customers and shareholders deserve it.

Thank you. And I'll now hand the call over to Dave.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

Thanks, Colin. With that, let's review the results for our first quarter of fiscal 2023, which ended June 30. As a reminder, we changed our fiscal year, so the comparable prior year period is the second calendar quarter of 2021.

Our first quarter revenue was $1.3 billion, which was flat against last year's results and in line with our outlook. Excluding the negative impact of foreign currency due to the strength of the US dollar, revenue was up 2%. As discussed on prior earnings calls, this result included an approximate 10-point headwind, related to proactive order cancellations, due to supply constraints associated with COVID-19 pandemic impacts.

Drilling down by region, our North American business was flat in the quarter or up 1% on a currency-neutral basis with increased revenue in our wholesale business being offset by a decline in direct-to-consumer sales. In wholesale, increased revenue in our full-price business was tempered by decreased sales to the off-price channel.

In our DTC business, positive momentum in our full-price stores and e-commerce businesses was offset by a decline in outlet stores.

Revenue in the EMEA region was down 1% in the first quarter, though up 6% on a currency-neutral basis. Clicking down further within EMEA, growth in our wholesale business was offset by a decline in DTC sales, which were somewhat constrained by operational issues that impacted shipping and sell-through performance, particularly in the UK.

Within our Asia Pacific region, lockdowns in China contributed to an 8% revenue decline. On a currency-neutral basis, revenue was down 4%, primarily due to lower DTC sales. Looking forward, while there are some green shoots and signs of better days ahead, the zero-tolerance China COVID policy keeps us cautious.

On a positive note, we have seen an excellent post-COVID recovery in the rest of the region with strength in South APAC, South Korea and Japan. Finally, Latin America revenue was up 6% to $49 million on a solid performance in distributor-led markets.

On a global basis, by channel, wholesale revenue was up 3% to $792 million. Increases in our distributor and full-price channels were partially offset by lower sales to the off-price channel. Direct-to-consumer revenue declined 7% to $521 million with declines across our own stores driven primarily by lockdowns in China, lower e-commerce sales and lower sales in our North American outlet business.

Licensing revenue increased 21% in the quarter to $28 million driven by timing and recognition of minimum guaranteed royalty payments in the APAC region and a solid performance from our Japanese business. By product type, apparel revenue was down 1% with strength in team sports, particularly global football and baseball, offset by softness in golf and run categories.

Footwear was up 1% as the supply chain continues to catch up to delays following last year's shutdowns, where we experienced a more significant impact on footwear production. Despite these challenges and delays, we saw good performance during the quarter in our football and basketball categories offset by declines in the run category.

And finally, our accessories business was down 13% due mainly to planned lower sales of our SPORTSMASK compared to last year.

Our first quarter gross margin fell 280 basis points year-over-year to 46.7%. This was driven primarily by 160 basis points of COVID-related supply chain impacts driven by elevated freight costs, particularly ocean freight; 50 basis points from higher promotions and discounting versus last year; 40 basis points of various unfavorable channel, regional and product mix impacts; and 30 basis points of negative impacts from changes in foreign currency.

SG&A expenses were up 9% to $596 million in the first quarter. This increase was primarily due to planned marketing investments carried forward from our transition quarter as well as higher workforce wages due to last year's teammate compensation increases, legal expenses related to ongoing litigation matters, along with higher consulting and technology-related spending. Our marketing spend in the first quarter was 11% of revenue.

Next, operating income was $34 million in the quarter. Excluding approximately $10 million of legal expenses related to ongoing litigation matters, adjusted operating income was $44 million, coming in above our outlook of $25 million to $35 million primarily driven by lower-than-planned SG&A expenses.

After tax, we realized a net income of $8 million or $0.02 of diluted earnings per share in the quarter. Our adjusted net income was $15 million yielding $0.03 of adjusted diluted earnings per share, coming in at the high end of our previous outlook for the first quarter.

Now moving to the balance sheet. At the end of the first quarter, inventory was up 8% to $954 million. Building on Colin's earlier comments, we were running leaner inventory levels over the past year due to our constraint model and proactive cancellations of orders because of COVID-related supply challenges. As supply chain deliveries recover from recent disruptions, we expect elevated inventory growth rates over the next few quarters.

Given the unique environment in 2020 and 2021, we believe looking at inventory on a three-year stack is a more accurate barometer of our current situation. In this respect, on a comparable basis versus 2019, our first quarter inventory is down 1%, while our revenue has increased 13% during the same three-year period. And of course, the composition of our inventory, namely higher-margin products, fewer SKUs and styles, along with considerably less off-price sales, demonstrates success in our efforts towards better brand health.

Rounding out the quarter, our cash and cash equivalents were $1 billion, and we had no borrowings under our $1.1 billion revolving credit facility. And finally, recall that our first-ever share repurchase program was authorized in February. Of this two-year $500 million program, we've repurchased $325 million in shares, including $25 million in the first quarter.

Next, let's turn to our fiscal 2023 outlook. Given our fiscal year change, remember that the comparable periods we are using are the corresponding quarters from the trailing 12-month period from April 1, 2021 through March 31, 2022. Accordingly, we'll refer to this as our baseline period.

To set some context, we continue to see high freight costs impact first quarter profitability, though we are now seeing signs that supply chain disruptions could find some balance from this point as we move through the rest of the year. The impact of our preemptive wholesale order [ph] cancellations (00:29:01) due to COVID-related disruptions diminishes in the second quarter. And thus, we plan on being in a better position relative to product availability during the back half of our fiscal year.

As such, we anticipate sequentially increasing revenue growth, as we move through the remaining quarters of our fiscal year. But with that said, we also expect higher levels of uncertainty to remain due to inflationary pressures.

Taking this to the full year, there is no change to our expectation that revenue should be up 5% to 7%. Excluding approximately 200 basis points of anticipated foreign currency headwinds, revenue should be up 7% to 9% on a currency-neutral basis in fiscal 2023. This expectation includes approximately 3 percentage points of headwinds related to our strategic decision to work with our vendors and customers to cancel orders affected by last fall's capacity issues and supply chain delays, along with the impacts of the COVID resurgence in China.

Given expectations for higher discounting and promotional activities versus our previous plan, the most significant change to our overall outlook is within gross margin, where we now anticipate a 375 to 425 basis point decline in fiscal 2023. This compares with our prior year baseline rate of 49.6%.

With a productive global outlet presence, coupled with maintaining off-price sales within our targeted 3% to 4% of revenue range, we believe we're positioned well to navigate however the environment may or may not develop. Our expectations regarding inflationary pressures on freight and product costs remain the same as noted on our previous call.

Other full year gross margin headwinds relative to our initial plan include additional impacts from changes in foreign currency and channel mix. With this lower gross margin, we plan to leverage SG&A and keep our expenses close to flat versus the prior year baseline year.

Within this spend we are committed to driving efficiency in corporate overhead while ensuring our investment dollars are optimized. And to Colin's earlier example, we are working to distort some spending to accelerate specific areas of priority like our digital capabilities and related DTC enablers.

Dropping through the impact of lower gross margin with some offset from anticipated SG&A savings, our operating income outlook is now $300 million to $325 million. Excluding legal expenses related to ongoing litigation matters, adjusted operating income is expected to reach $310 million to $335 million. This takes us to diluted earnings per share for fiscal 2023, which we now expect to be $0.61 to $0.67.

This includes a $0.28 benefit related to a tax valuation allowance release expected to be realized during the fiscal year. Of this $0.28 benefit, $0.16 of this amount is related to prior restructuring. Additionally, there is a $0.02 negative impact from legal expenses related to ongoing litigation matters. Excluding these net positive impacts of $0.14, adjusted diluted earnings per share is expected to be between $0.47 and $0.53. And finally, we expect capital expenditures of approximately $225 million this year, which is within our operating principle of 3% to 5% of net revenues.

Next, I'd like to give some color on our current quarter. We expect our second quarter revenue to be flat to up slightly on a reported basis, or up a low to mid single-digit rate on a currency-neutral basis. This includes about 5 percentage points of headwinds from proactive reductions and cancellations to our order book due to COVID-19-related supply constraints as previously discussed.

Given a tough year-over-year comparison, we expect gross margin to be down approximately 550 basis points to 600 basis points in the second quarter due to negative impacts from elevated promotional activities, increased freight expenses, shifts in channel mix and growing pressures from changes in foreign currency.

For SG&A, demonstrating my earlier comments to mitigate and offset gross margin pressures, we expect to hold SG&A flat to slightly down in the second quarter. Taking this to the bottom line, we expect a second quarter operating income of $105 million to $115 million, which should translate to $0.15 to $0.17 of diluted earnings per share.

So, in closing, we remain confident in our strategy. And we believe we have the right offensive and defensive playbooks to see us through this developing environment. Our strategic, operational and financial foundations have strengthened over the past couple of years. And our team has weathered more than a few storms, gaining experience and agility as we've dealt with ever-changing market dynamics.

We are confident this will work in our favor as we pivot toward driving more pronounced growth, and ultimately improve profitability and shareholder returns in the long-term.

With that, we'll turn it over to the operator for questions. Operator?

QUESTION AND ANSWER SECTION

Operator: Certainly. [Operator Instructions] Matthew Boss with JPMorgan. Your line is open.

Matthew R. Boss
Analyst, JPMorgan Securities LLC
Q

Great. Thanks. So Colin, what's your overall assessment of demand today for the Under Armour brand maybe relative to the active market? Where do you see opportunity to drive even greater brand heat?

And then as we think about the composition for this year, what factors are driving the confidence to hold the revenue outlook and how best to think about drivers of the revenue growth in the back half of the year?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.
A

Well, thanks for that question, Matthew. I mean, we still believe there's a lot of demand out there for Under Armour brand.

As I said in my script, I've spent a lot of time talking to kind of consumers and customers and undoubtedly there is still lot of demand out there, $6 billion worth of demand out there. So, we're still confident when we look at the metrics with regards to consideration and other things, we're pretty upbeat with regards to the opportunities to kind of continue to drive into that.

We've got a lot of exciting, innovative product coming to market at the back end of the year, which we're incredibly kind of upbeat and excited about. Kevin talked a little bit about that, and I kind of referenced that in my script as well. So, I think that gives us some optimism for the future as well. So what was the third question? Perhaps I missed the third one.

Matthew R. Boss
Analyst, JPMorgan Securities LLC
Q

Just drivers of the revenue growth in the back half of the year relative to the front half?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.
A

Dave, you want to jump in?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.
A

Yeah. So this is Dave, Matthew. When you think about the back half of the year, a couple of things I would consider is, one, we believe we're going to be in a much better supply chain position relative to product availability. So that will be a big factor. In addition, we will not be comping or dealing with the challenges of the inbound that we've talked about that have taken away 10 points in Q1 and we estimate 5 points in Q2. So we'll be essentially beyond that as we go into the back half as well.

And then, when you think about maybe some over-indexed areas, you could also look at APAC, understanding some of the challenges that they've been under in the first half of the year with COVID. And with their growth getting back to normal as COVID subsides and also with retail door openings, et cetera, APAC should be a big driver in the back half as well. So, those are just a few different things, but there's a fair amount that's out there. I don't know if you want to add anything, Colin.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.
A

Yeah, I would just say EMEA as well. I mean, we're seeing a lot of upside in our EMEA business as well. So again, there's clearly demand, and we're pretty optimistic about how we kind of see the balance of the year playing out.

Matthew R. Boss
Analyst, JPMorgan Securities LLC
Q

Great. And then just to follow-up, Dave, on gross margin, could you just elaborate on the elevated promotional activity that's now embedded in your outlook? What exactly are you seeing today? What have you embedded in the second quarter in terms of actions? And just how do you feel about your overall inventory position?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.
A

Sure, sure. When you think about Q2, just for this current quarter that we're in, the biggest factor in Q2 is definitely the expectation of having to be a lot more promotional and discounting as we see that developing in the market.

We don't feel that we're going to be an outlier in any way, but we believe that that's where the market is going to be. And we need to play in that and make sure that we're staying in the game there.

Probably the second biggest factor for Q2 is the increased freight costs, which we've been dealing with and we've talked about before. And then there's also a little bit of impact with channel mix. There's more distributor sales and a little less DTC mix planned in Q2 and then also the developing FX pressures.

When you think about full year, if you kind of walk your way down, the largest impact that we are estimating now for this year is the higher discounting and promotions. That's probably a little more than 1 point on the full year impact versus last year.

The second one will probably be the inflationary pressures, which are impacting the freight costs we've talked about and also product costs and that's about 1 point of an impact versus prior year.

And then, the mix from a channel perspective, mainly the higher distributor sales, which some of that's EMEA, some of that's LatAm. That's a little less than 1 point. And then after that, probably the next one would be FX pressures, which is probably right now estimated about 0.5 point year-over-year. So hopefully, that gives you a little more color.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.
A

And let me just jump in on the inventory situation, the question you asked there. I mean, we're feeling actually pretty comfortable with our inventory level. We talked a little bit about the metrics, how they compare over the three-year stack. And if you look at our terms and other key metrics, we're kind of getting back into the right level trying to service the market. And actually, it's the right level based upon how we wanted to start to grow the brand.

As you heard us talk about in the script, there's a lot of optimism and a lot of, kind of, accelerate – thinking about how do we kind of accelerate beyond kind of what we currently do. And the idea of ensuring that we actually have the right inventory to kind of service that side of the market is something which we definitely want to make sure we're in an ability to kind of lean in into that. So, yeah, we're comfortable with our inventory levels.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

That's helpful. Best of luck.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Thank you.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Thank you, Matt.

Operator: Jay Sole with UBS. Your line is open.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. Colin, I want to ask you about given that obviously change in leadership and now that you're interim CEO, how do you think about the mandate from the board to drive growth – top-line growth for the company versus sort of maintain the discipline that the company has showed over the last few years compared to maybe where it was 2013, 2014, 2015 and control pricing, control brand management, control the brand equity and make sure that like the brand continues to move forward in an elevated way. How do you balance the needs of both as you look to drive the company forward? Thank you.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Well, thank you for that question, by the way. And I think it's a great question, but isn't this all about creating that right balance because isn't that what great companies do? I mean, over the past five years, we've worked aggressively to put in place an operating model that's really started to put us in a great position to kind of move to this next chapter.

But as we move into this next chapter, we're certainly not going to walk away from the operational disciplines and the processes that we've put in place. But what it's allowed us to do is give this incredible platform, this incredible kind of launching pad through which we can start to think about how do we kind of pivot to that next kind of growth. And so, it's not a question of giving up one to get the other. But it's really clear.

When we go and talk to consumers, consumers do want more from Under Armour than just to be wearing it in their sweaty part of their day. So thinking through how do we meet that demand, but do so in a way that's really true to Under Armour with performance and style. It can't be, kind of, anything other than Under Armour true. It needs to be with the right Under Armour logo on it.

And so, I don't think these things are mutually exclusive, in fact, we have to do them both. And I think we're incredibly well-positioned to really lean into that. And it's one of the things I'm most excited about certainly in this interim role to, kind of, figure out how we do that. We're so well-positioned to executing against that plan.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. And if I could just follow-up with one more. You mentioned that the company has an authorization to buy back stock. The company has about $1 billion in cash, and the stock price is pretty low relative to its history. How are you thinking about buying back stock over the rest of the year, given the company should still generate pretty good cash flow even this year and probably better next year?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yes, Jay, this is Dave. Obviously, we continue to look at what the different options are that are out there. We're happy with where we are from a liquidity perspective and overall balance sheet perspective. We do have some open remainder on the share repurchase program. So we will continue to pursue that prudently.

And then we'll continue to look at other options as well. But at this point, we continue to believe that having the liquidity that we have is very helpful. It allows us to be nimble. It allows us to continue to look at new opportunities, whether they, be organic or not. But at this point, we're in a good spot.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. Thank you so much.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Thanks, Jay.

Operator: Simeon Siegel with BMO Capital Markets. Your line is open.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Thanks. Hey, good morning everyone. Within the full year, just any help on how to think about apparel, footwear and accessory revenues baked into that guide? And then I appreciate the full year gross margin color, any way to just quantify the components of your expected 2Q pressure as well? Thank you.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Sure, sure. Relative to full year revenue, when you think about from a product perspective, we anticipate footwear growth is definitely going to be higher than our apparel growth. And partly that is because if you think about the supply chain challenges back half of last year, a lot of that impacted footwear production more so than apparel production.

So, you're comping that in the back half of this year. So footwear growth, which is healthy to begin with, gets a little bit of a comp benefit there as we go into the back half of the year. So, full year growth definitely leaning heavier on footwear versus apparel. Accessories will still be a little bit down potentially due to comping the SPORTSMASK business. We should get past that as we get through the end of this year.

And then when you think a little bit around – we gave North America versus international. North America we're seeing a mid-single-digit growth this year, international kind of the low-teen level. And then relative to gross margin for Q2, the lion's share of the impact is anticipated elevated promotional activities as we manage through the environment. So, that is probably close to a 3 point impact over prior year quarter.

The increased freight expenses, that's probably a little bit more than 1 point. So between those two, you've got two-thirds or more of the impact. The next largest would be the channel mix, which is mainly around higher percentage of distributor sales and a little less DTC sales in the mix for Q2. And then the FX pressure is probably around 0.5 point or so. Hopefully, that helps.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Great. Thanks. Yeah, that's great. Thanks. And then just a quick follow-up. What was the change in inventory units versus the 8% growth in dollars? And then how are you thinking about that AUC delta going forward?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah. I mean, inventory – when you think about sales for Q2, price versus units, they were both fairly flattish. There wasn't really a big disparate there. So it wasn't really a big story for us.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Okay, great. Thanks a lot guys. Best of luck for the rest of the year.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Thank you.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Thanks.

Operator: Michael Binetti with Credit Suisse. Your line is open.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Q

Hey guys, I just want to clarify one thing. If I look at the direct-to-consumer business, it decelerated by about 10 points when we look versus 2019 and wholesale accelerated, it looks like, by about 11 points. Just to kind of set the baseline for how the revenues were composed in the quarter. You sounded like in the prepared comments like the inventories would start to build as some of the production headwinds get out of the way as we get past 2Q.

Do you – I mean, maybe I'll just ask you, how do you feel confident that you're rebuilding inventories here with DTC decelerating a little bit in this quarter that it will be able to, I guess, improve a little bit as you go through the year to match up demand before the inventories are coming in?

And then, maybe if you could click into the North America outlets a little bit. It sounded like you're happy with full price, you're happy with eCommerce in North America outlets. Is that traffic? How is that channel responding as you move through the first quarter and even into the second quarter as you guys have shown the consumer some of the promotions?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah, Michael, this is Dave. I guess, a couple of things. When you mentioned on the DTC growth versus 2019, I think the big thing to remember there is the over-indexed impact of the China lockdowns that we had in the quarter. And knowing that China is a pretty big DTC quarter for us as well. So that's one thing I think to consider. And I think you'll see that normalize a little bit more as we go forward here into Q2, Q3, Q4.

And then when you think about the North America outlook, there's a lot of things there that are moving forward very well for us. And we have fairly balanced assumptions there as far as growth within wholesale and also growth within DTC. I would say that eCommerce is definitely something that we're leaning into more with all the investments that we're making there. And we're excited about those, and some of those come online this year, which we anticipate would start helping Q3 and Q4 as well. Colin, I'm not sure if you want to add anything else there?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Not a huge amount. I mean, I think you covered most of it, Dave. I mean, we are – the composition of our growth is certainly healthier than it was a few years ago. And we're really kind of happy with the way in which our wholesale relationships are continuing to evolve.

But at the same time, we also recognize that we need to accelerate how we think about DTC and the way in which we're leaning into that. And as we talked about earlier, we're kind of starting to overinvest in that area to try and ensure that we are able to compete in the appropriate level there.

So yes, overall, it's – we're feeling okay. I will also just add that we also believe we've kind of got the appropriate off-price sales mix. So although we're kind of dealing with some margin challenges here, I think we've got the balance about right and feeling confident to how that's kind of coming together for the balance of the year.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Q

If I could follow-up with one on apparel, I guess, down 1%, doesn't seem all that bad in the environment we're in for you guys. I'm curious, did you see volumes pick-up with the promos that you mentioned? So feel okay about the effectiveness as you show the consumer promos to keep the inventory moving?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Yes. Yes, we do. Yes. I mean, obviously, we are still kind of – we're anniversarying some of the supply chain challenges we've had. So we – but overall, we're certainly still seeing demand for apparel. That's still working pretty well for us. And we're feeling, again, reasonably buoyant was the expression I've been using recently. So we're reasonably buoyant about how that's still starting to flow through.

Michael Binetti
Analyst, Credit Suisse Securities (USA) LLC

Q

Okay. Thanks a lot, guys.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Thank you.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Thank you.

Operator: Tom Nikic with Wedbush Securities. Your line is open.

Tom Nikic
Analyst, Wedbush Securities, Inc.

Q

Hi. Good morning, everybody. Thanks for taking my question. To follow-up on an earlier question, I mean, during the pandemic, you did a great job kind of helping drive full-price sales and kind of reestablishing the sort of premium – more premium positioning of the brand. And obviously, now you have to – you're kind of talking about being more promotional in the next couple of quarters.

How do you, kind of, avoid sort of having the consumer trained to look for discounts and promos? How do – when we kind of get past this period of disruption and elevated inventories and clearance [ph] or whatever (00:51:01), how do we ensure that the customer goes back to looking for the brand full-price instead of simply looking for discounts and promos even beyond this near-term period?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah, Tom. That's a great question and a great point. And as we sit here and look at this year and how it's developing, it is going to be an interesting market. We know there's a lot of inventory coming in with all the brands. We know that demand is going to be a little challenged relative to inflation and the amount of wallet available. So we've got to be able to play into that.

And so although we're not excited about being more promotional, we're going to do it in a very strategic way. A lot of it's going to be focused on our outlet business, where consumers are kind of always expecting those deals. I don't think you're going to see us going deeper than our competitors.

And the other thing I would also say is we've made a lot of good strides, to your point, over the last year or so, especially last year. And as we look at the number of promotional days and the depth of our promotions that we now have planned for this year to navigate the environment, we're still actually in a better place than we were, I would say, than we were in 2019, which is probably the last normal year, I would say.

So we are being prudent, but we're also being careful. We want to make sure we're protecting the brand. And also, we're going to start investing more as we go forward, too, into full-price brand house stores whether that be further in APAC. We're starting to do more in EMEA that we're really excited about. And we've got some lined up here stepping into for the US as well. So, I think there's also a little bit of high/low that we're going to keep an eye on as well and keep driving forward and set ourselves up well for next year.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.
A

And I'll just jump in there. I think one of the other things that we kind of called out is we will continue to heavy up. We're going to be at kind of up 10% to 11% range is kind of what we called out before. And our expectation is to continue to lean into that to make sure – and that will be – a lot of that will be middle to top end [ph] kind of (00:53:10) marketing to really make sure that we're building the brand long term, so the brand still resonates with consumers at the right level.

And at the same time, we've talked a lot about how we're looking to kind of continue to distort some of our growth in footwear, and that's going to be important, and that being some of the premium channels as well. So we need to play that high/low game to Dave's point of view, but at the same time, make sure we're plowing the right amount of money in marketing to make sure that we're still resonating with the consumer at the right level within the market.

Tom Nikic
Analyst, Wedbush Securities, Inc.
Q

Understood. Thanks for the color and best of luck for the rest of the year.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.
A

Thanks, Tom.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.
A

Thank you, Tom.

Operator: Jonathan Komp with Baird. Your line is open.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.
Q

Yeah. Hi, maybe just to follow-up a bit and maybe a broader context on how you're viewing the margin performance relative to the health of the brand. The guidance for the year is back more similar to 2017 or 2018 levels on gross margin yet the direct-to-consumer portion is higher. The distribution's cleaner. So just how should we read that in the overall context of the health of the brand and your confidence in where the brand stands today relative to the discounting, gross margin you're planning?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.
A

Yeah, Jonathan, I guess, this is Dave. A couple of things I would consider there. As I just mentioned, yes, we are intending to be more promotional this year to manage through the environment. But again, I think we're going to do that in a brand-right way. And we're going to be very strategic about how we do that.

We're very comfortable with what we can do through our outlet stores. And we also are still planning the third-party off-price channel kind of in that 3% to 4% of our overall revenue mix, which we think is a reasonable level. So I think we're going to do pretty well as far as protecting the brand as we navigate through this year.

And then when you look at some of the other pieces of gross margin, the inflationary pressures that we're seeing on freight, we do expect to start to subside as we go further into the year and into next year. So when you're thinking long-term or when you're thinking comparing to 2019, that headwind should definitely start to dissipate.

And then also, as we're making all these investments in omni and in the consumer touch points in digital, you will – we should expect to see our DTC growth accelerate even more as we move into next year and beyond, which will also help gross margin.

And then lastly, I would say that we're at a pretty high point here with the US dollar and what that does to our gross margin right now. I'm not going to sit here and try and forecast what FX is going to do, but most would probably say that we're at a higher point right now and what would that mean for potentially a little favorability on that side going into next year as well. So I think it's just thinking about all those different puts and takes and what would be a pressure point this year versus what will start to dissipate or maybe become a tailwind as we think about next year and beyond.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Yeah, that's really helpful. And maybe just one follow-up on the DTC and the acceleration. Can you just maybe be a little more specific on how much of that acceleration you're planning to capture in the guidance this year? And in the context of lower overall SG&A spend for the balance of the year, how do you make sure you've got enough reinvestment to be able to support that acceleration? Thank you.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah. As far as breaking down this year, again, we do obviously anticipate growth in DTC. But again, remember that Q1 and Q2, especially Q1 was very challenged relative to the China impacts. And that's going to drag on us for the year as far as the full year impact, and we still expect some of that challenge this quarter as well and then getting into a much better spot on DTC growth as we go into the back half of the year. So it's a little bit back half-weighted, but there's clear reasons for that in addition to product availability as well.

And then I'm sorry, Jonathan, what was your second question on SG&A?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Yeah. I mean, I think – yeah, go ahead, Jonathan, please.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Sorry to interrupt. Yeah, just in the context of the lower implied SG&A spend for the balance of the year, how do you make sure you're keeping enough to reinvest in the right places in the context of the acceleration?

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah, that's a great question. And it's something that we've spent the last probably three years really digging in, whether it's through the restructuring, through the operating model work to really understand all the levers within our SG&A cost structure and which ones that we can change or drive differently, while still protecting the brand, while still protecting a lot of that top of funnel marketing spend, and really reallocating some of those dollars to go heavier into the digital investments that Colin was talking about. So we've got a really good process in place.

And the other thing that I will mention is the enterprise mindset of our leadership across the company. And I'm speaking to all the leaders within our company, not just those at the top of the table here. But everybody has been working together, and really making sure that we're spending smart, we're prioritizing the right way, and we're making good decisions for the long-term. And hats off to all the employees here for helping us do that and continuing that forward.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Yeah, I'd echo those comments from Dave. But I would say it should give some assurance from the operating model we've stood up, from the disciplines we put in place. We're now really starting to see the benefit of some of those as we really look to trying to drive the leverage of the operating model. We stood up the processes of the systems. And now thinking through, as I expressed earlier in the call, how do we use that foundation through which to pivot to growth, but at the same time ensuring we're actually holding our SG&A at an appropriate level and pivoting and kind of talking our investments as appropriate to where we can drive the greatest value for the brand. And it's very clear that DTC and eCommerce is where that should be.

Jonathan R. Komp
Analyst, Robert W. Baird & Co., Inc.

Q

Thanks again.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Thank you.

Operator: Brian Nagel with Oppenheimer. Your line is open.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Good morning. Thank you for taking my questions. So first off, I guess maybe just more of a qualitative look at all the inventory comments that you've made.

So as you think about either from an Under Armour perspective or maybe what you're seeing in the category broadly, the inventory now that's set to flow better, is it more of just what should be coming? Or is there a product there that's been backed up and now potentially could be out of season off trend, which would lend to potentially more promotional activity?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

That's a great question, Brian. And I think although – as we talked, we actually took some proactive cancellations earlier in the year to make sure that that was not an issue, to make sure that the timing – that we were in a clean position with regards to the inventory that was coming in – the right inventory was coming in at the right time. And that's where we're now moving into. We're seeing the right inventory arriving at the right place at the right time in order to service consumers. So we feel our inventory is going to be pretty clean and going to be at the right place at the right time to meet consumers and provide those with performance solutions they never knew they needed [indiscernible] (1:00:52) across the brand.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Yeah. That's very helpful. And then, I guess, my follow-up question, you talked about in the prepared comments, I guess this maybe growing emphasis, if you will, on lifestyle or what you refer to as parts of the day where people don't want to sweat as much.

How should we think about the timing of that – the timing? Or when would we begin to see that product and any type of emphasis around that product?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Well, I mean, we're working through that now, Brian. I mean, it's going to take a while to obviously build it into our go-to-market model. But at the same time, one of the disciplines we've put in place over the past couple of years is kind of what I call our big wheel, small wheel kind of model from the point of view, there are certain things that are just going to take time to do, because that's the cadence that we need to have in place to run the business and produce the kind of innovative kind of solutions we come up with.

But at the same time, there's clearly tactical opportunities for us to kind of double down and deliver things within season. So we're running those two things at the same time. It will take a while for it to kind of impact the entire business, well, the relevant parts of the business. But certainly, we're looking to make some tactical shifts as and when we potentially can. So we're leaning into that now.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Got it. I appreciate it. Thank you.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Thank you.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Thanks Brian.

Operator: We have time for one final question, Paul Lejuez with Citigroup. Your line is open.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Hey, thanks guys. I'm curious if you could talk a little bit more about the SG&A and the way that you were able to flex for the rest of the year in response to the current environment. And then related to that, I think you mentioned you have a $600 million marketing dollar budget that was not optimized.

I'm curious where you feel like you're not getting a good return on the marketing dollars that you're spending. How big is that bucket of dollars that you feel like is not producing an adequate return? And how quick can you pivot away from what you're spending on today versus, I think, you mentioned a little bit more focused towards DTC, just curious, how fast you could move there. Thanks.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Yeah. Paul, I'll start overall on SG&A, and then I'll hand it over to Colin maybe to dive in on the marketing a little bit. But in general, as we're seeing things develop, we motivated pretty quickly to dig in and see how we could reprioritize and move forward in a way to protect the brand, keep making the right investments, while kind of taking the SG&A down.

So there's definitely some things that we've done there relative to some of the consulting spend that we believe that we can do more in-house or that we believe that we can defer a little bit out to later periods, although still protecting kind of the digital and consumer journey touch points work. So some of it is really just doing some pretty deep, detailed diving and prioritization of areas like that.

But then also, there are some areas where we can slow down a little bit relative to hiring in some of the expansion areas. There's also some areas where CapEx, we can slow down a little bit if it's non-revenue-generating CapEx. When it goes live, you've got depreciation. So there's ways that we can slow that down and prioritize that more.

But it's really just going through and working with all of our teams and prioritizing each of the areas and understanding what we want to protect and what we can give in a little bit more on and again, using an enterprise mindset, which has really been strongly developed over the last few years.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

And with regards to the question on marketing, I mean, Kevin in his prepared remarks, kind of, explained just the incredible assets we have across the brand. And the opportunity for us to really optimize those is really what we kind of make sure we need to do, making sure we're leveraging those and engaging that appropriately and making sure that we are – making sure we're driving the right ROMI with regards to how we are investing in marketing.

So a real kind of deep dive to make sure that we're activating those assets that we've got in place and really making sure that we can continue to kind of optimize that. So there's some deep – there's a deep dive that we're doing at the moment as part of obviously this transitional plan to make sure we're really doubling down and driving upon that, because we've got some of the greatest assets in the world and how do we make sure that we're just optimizing those for the benefit of the brand.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

When should we expect that work to be done? And when will the consumer see something different from you guys in terms of how you're spending your marketing dollars?

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

I think that will come through over a period of time. We're obviously in a transitional period at the moment with the CEO, kind of, leadership leaning in here. But the teams are working on it. It's actually work in progress at the moment. I think we'll start to see some iterations around that fairly soon because marketing is one of these things we can pivot a little bit.

And I'm certainly incredibly proud of the back-to-school campaign that the team has recently put out, which I think kind of started to lean in a little bit differently to how we think about that. But clearly there's opportunities for us to do more. And I know the marketing teams are kind of actively leaning into that. And I think you'll see that evolve certainly over the next few months.

Paul Lejuez
Analyst, Citigroup Global Markets, Inc.

Q

Thanks, guys. Good luck.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

A

Thank you.

David Eric Bergman
Chief Financial Officer, Under Armour, Inc.

A

Thanks. Paul.

Lance Allega
Senior Vice President, Investor Relations & Corporate Development, Under Armour, Inc.

All right. Thanks, everyone. I appreciate you joining us on today's call.

Colin Browne
Interim President & Chief Executive Officer, Under Armour, Inc.

Thank you. Bye-bye.

Operator: This concludes the Under Armour, Inc. Q1's 2023 earnings webcast and conference call. We thank you for your participation. You may now disconnect.