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Under Armour, Inc. (UA)

Q3 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning and welcome to the Under Armour Q3 2024 conference call. All participants are in a listen-only mode. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Lance Allega, SVP, Investor Relations, Treasury and Corporate Development. Please go ahead, sir.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

Thank you. Good morning and welcome to Under Armour's third quarter fiscal 2024 earnings conference call. Today's event is being recorded for replay. Joining us on today's call are Under Armour President and CEO Stephanie Linnartz, and CFO, Dave Bergman.

Our remarks today will include certain forward-looking statements that reflect Under Armour's management's current view of our business as of February 8, 2024. These statements may include projections for our business in the present and future quarters and fiscal years. Forward-looking statements are not guarantees of future business performance and our actual results may differ materially from those expressed or implied in the views provided. Statements made are subject to risks and other uncertainties detailed in this morning's press release and documents filed regularly with the SEC, including our annual report on Form 10-K and our quarterly reports on Form 10-Q.

Today's discussion may also include the use of non-GAAP references. Under Armour believes these measures provide investors with a helpful perspective on underlying business trends. When applicable, these measures are reconciled to the most comparable US GAAP measures, reconciliations of which along with other pertinent information can be found in this morning's press release and at about.underarmour.com

With that, I will turn the call over to Stephanie.

Stephanie C. Linnartz

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

Thank you, Lance. And good morning to everyone joining today's call. Let me begin by saying that despite a challenging retail environment and consumer buying behavior that was inconsistent market to market, we are pleased with the results we achieved in our third quarter, with revenue in line with our November outlook and better-than-expected earnings.

As I approach my first year at Under Armour, I am genuinely inspired by the power of the brand and our commitment to the strategies we are undertaking to unlock our full potential. Following our Protect This House 3 plan launched last spring, I am pleased with our progress in driving global demand creation, and our focus on evolving and simplifying our approach to connecting with consumers.

I also feel good about how our efforts are shaping up to deliver elevated design and products to the athletes we serve in nearly 100 countries around the world, strengthening our ability to drive success across our largest growth opportunities in footwear, sports style and our women's business.

With respect to driving US sales, this remains a multi-year journey. And candidly, we have much more work to do to become a healthier business capable of returning to growth in our largest market.

As detailed previously, inconsistency has permeated our US business over the past years, in how we go to market across consumers, customers, and geographies; how our product is created and delivered with a consistent design language; channel segmentation; and how we show up in our owned physical and digital businesses. With a critical mass of work underway and additional analysis that will yield more work and decision points in the months ahead, we are on the right path to addressing these inconsistencies and turning them into strengths.

All of this will take time, and it starts with leadership. To drive success, the right talent must be in the right places with the trust and the freedom necessary to empower execution. Bolstering our leadership was amongst my highest priorities in my first year at UA, and we've made excellent progress.

Since last summer, we've added several new experienced officers to lead our product, design, consumer, supply chain, and communications teams. Additionally, we named a nine-year company veteran to lead our Americas region, and announced the return of a UA veteran to head our EMEA business. We have also streamlined our business to be more responsive, including our marketing functions, where we recently consolidated our global and North American teams who will report to a new Chief Marketing Officer, a search that's currently underway. This unification will bring a cleaner, integrated approach to empower faster decision making to accelerate our ability to connect more deeply with consumers.

About two-third of my executive leadership team is new compared to last year. And each of these leadership changes is tied directly to the inconsistencies I mentioned earlier. So we are making good progress in hitting challenges head on. The next steps are activating and empowering these teams to drive our strategic priorities, creating a future flywheel of operational excellence and execution that drives consistency back into our business.

During the third quarter I visited our Asia Pacific region and met with our team, athletes, and retail and factory partners. Like my EMEA trip, I am encouraged by the energy, passion, and effort we're bringing to our daily business. I also toured many of our North American stores to evaluate the opportunities we have to leverage our full-price locations as a premium brand showcase to further build relevance with our consumers.

In the near to mid-term, as we navigate a dynamic global environment and our new leaders take time to ramp up, we are focused on cost management and profitability. As we close out fiscal 2024 and assess how best to allocate our investments in the year ahead. This includes efforts to understand where and how we are putting our resources to work to drive the best possible returns, and identifying which strategies will be most critical to driving demand creation over the long term, especially in North America.

With more strategic deployment of our marketing resources, we continue to see positive momentum here. A great example is the Curry brand, driven by the Curry 11 basketball shoe. And we recently launched the Dub Nation pack, celebrating Stephen's commitment to the Golden State Warriors fans with unique colorways for the 11, the Curry 1 Retro, and the Spawn FlowTro.

The Curry brand also dropped exciting collaborations with Bruce Lee in apparel and footwear, including the new Curry SlipSpeed. And with the addition of De'Aaron Fox from the Sacramento Kings, we're looking forward to De'Aaron's first signature shoe later this year.

In global football, we're leveling up our roster with some of the best up-and-coming talent at the highest levels of sport. We recently signed Mexican national team player, Sebastián Cordova; FC Barcelona's Fermín López; and Real Madrid's Antonio Rüdiger. As we look to grow relevance in the world's most popular sport, this marks a significant move to bolster our presence. So we are very excited about the possibilities this brings in the years ahead.

In American football, I want to congratulate our hometown Baltimore Ravens for a fantastic season, reaching the AFC Championship Game, including UA athlete, Kyle Hamilton, who was named a first team All-Pro and to the Pro Bowl in just his second year.

On the college side of the game, Notre Dame finished this season with a dominant bowl win, powered by Under Armour performance gear on the field, and had off-the-field swagger with UA SlipSpeed, HeatGear, Baselayer, hoodies, and fleece.

Adding an excellent example of our evolving approach to brand activation was last month's UA Next, all American event in Orlando, where the best US high school volleyball and football players engaged in a week of unforgettable experiences and elite level competition. As a pinnacle grassroots program, this provides the next generation of athletes an opportunity to elevate their physical and mental game. And of course, they were kitted out in amazing UA gear, like the all-new SlipSpeed Mega, a maximalist running shoe in Fire and Ice colorways, and other products like Unstoppable pants, Infinite Pro running shoes, and all the accessories necessary to excel at their sport.

With a massive social media activation, the UA Next All-American Week demonstrates how we maximize the authentic connection to sports culture, showcasing product innovations that make athletes better and leveraging up-and-coming influencers to generate brand buzz and engagement.

We have also made significant strides across social media over the past year and continue to gain traction. During this time, our Instagram followers showed strength across all UA accounts, with a significant uptick in the Curry brand. Likewise, our TikTok followers have also gotten stronger, as have our engagement rates. This past quarter, our focus was elevating footwear and Sportstyle, and our strategic collaboration with external content creators and influencers meaningfully helped to amplify the impact of our social media content.

To drive engagement and demand for the brand, we must deliver elevated design and products. With the appointment of Yassine Saidi as our Chief Product Officer, I am incredibly excited about the evolution and style for our apparel and footwear. Joining us just last week Yassine brings nearly 20 years of industry experience from several powerhouse brands, with a deep pedigree in developing authentic performance and sportswear apparel and a reputation as a significant influencer in the sneaker market.

With our Chief Product Officer and a new Head of Design in place, along with additional apparel, sneaker, and branding experts, we are making significant progress in getting the right team together to ensure a balanced approach to continuing to deliver industry-leading performance innovations on pitch, field and court, with an ability to attack the massive sports sell opportunity more effectively.

Given our product creation cycle, it will take time for this newly led team to start driving more critical mass into the equation. Yet, we're not hitting pause until then. We have a lot of newness to be excited about as we head into spring/summer 2024, especially in apparel.

Over the past few quarters, we've made substantial progress in style consolidation and leaning into premium, as we've started to place smaller run capsules and reposition existing products within our Sportstyle offering. Although early, we are excited for fresh updates of our key apparel franchises to hit shelves later this spring, including the Unstoppable Airvent, a new baggier on-trend silhouette of our classic woven pants.

Additionally, an expanded line of our soft and versatile Meridian performance apparel is due out this spring, with stylish, flattering products for women, including bodysuits and tanks that she can wear from the classroom to practice and from the gym to the office.

Next, is an update to our iconic warm weather Baselayer with super light HeatGear compression shirts and shorts that wick sweat for maximum performance, receiving new and improved fits, colorways, and styles for more versatile occasions. Our retail partners are excited about this evolution, and bookings for this product are strong, especially our women's products.

Speaking of our women's business, we were honored to have received two Women's Health fitness magazine awards. Our UA SmartForm Evolution Mid Sports Bra received the best sports bra overall, and our women's UA Reign 6 training footwear was also recognized. We are proud of these wins, which help drive more incredible momentum in this business, especially as we expand our Sportstyle offerings.

Shifting to our ability to harness innovation for our athletes in the planet, I'd highlight our collaboration with Celanese, a global chemical and materials company, in developing a new fiber for performance stretch fabrics called NEOLAST. This incredibly innovative fiber has the potential to offer our industry a high-performing, more sustainable alternative to elastane or spandex, which has recycling challenges. With the first apparel products due out later this year, we believe NEOLAST fiber could have a transformative impact on Under Armour and the textile industry.

Next is footwear, which remains our single most significant growth opportunity, and we know we have a lot of work to do here. During the third quarter, our footwear business was down 7%, in part due to a tougher prior-year growth comparison of 25%, but also due to softer demand, primarily in North America.

In the rearview, we recognize some of the inconsistencies from our past are showing up in our current results. However, we believe these challenges are near term in nature, and we continue to look forward by evolving our footwear strategies and investments to support our long-term growth expectations.

Rounding out our product leadership changes, a search for a new head of footwear is also underway, further emphasizing our commitment to having the right talent to drive the right results in the years ahead.

Leveraging our knowledge of knits, expertise in midsoles and innovative cushioning, we have made good headway in our approach to our running footwear. As a highlight, our Velociti and Infinite running franchises are getting important updates for spring/summer 2024 with Base, Pro, and Elite styles to cover our good, better, best segmentation. In this spirit, we are intensely focused on franchises, identifying where we can win, and partnering with our wholesale customers to scale our footwear business more effectively.

Shifting next to our Americas business, and much work remains. During the third quarter, our North American business was down 12%, which I will note was in line with our expectations and reflective of a challenging wholesale environment in the US and softer demand. Here, we remain focused on serving our retail partners and working with them to optimize our assortment and segmentation, ensuring greater overall consistency and profitability.

In our North American DTC business, I'd highlight that underneath flattish results in the quarter, we are encouraged by specific operational gains made during the crucial holiday period. These included exceptional customer service scorecards, elevated talent across our fleet, and significantly improved in-stock levels. Thus, our work to become a better retailer is beginning to shine through.

We are also progressing on our new full-price brand house design and are set to test a smaller, easier-to-navigate format with a more premium and curated product positioning. One of the bright spots for our North American DTC business continues to be our UA Rewards loyalty program, with encouraging member engagement and spending trends.

Our enrollment has hit nearly 3 million members, which is well ahead of the target we set for fiscal 2024. Our members continue to show a higher premium purchase frequency than non-members in these early months. We drove engagement during the third quarter via our first-ever members week, along with eight members-only holiday campaigns, which directly contributed to peak holiday business.

We are also working to improve our digital business. Given that our North American e-commerce channel has been tempered during fiscal 2024, as we turn to fiscal 2025, we are exploring plans to reduce our promotional dependence to create a more premium online presence.

Simply put, ua.com will become a showcase for our brand. We have done a lot of work to make our website more functional to increase conversion, but we must create a more premium shopping experience to elevate the brand.

Closing out North America, we recently appointed Kara Trent to head up our largest region. Kara has been with Under Armour since 2015, and most recently led our EMEA business to consistent double-digit revenue growth during her tenure. She is an exemplary leader and an industry veteran who builds performance-based teams, disciplined segmentation, optimized marketing strategies, and strong wholesale relationships. As she steps into this role, I am confident that she has the right skill set, demeanor and drive necessary to put this business back on a path of top line growth over the long term.

And finally, another leadership appointment is the return of 25-year industry and 9-year Under Armour veteran, Kevin Ross, who will serve as Kara's replacement in EMEA to lead that business as Senior Vice President and Managing Director. With deep experience in general management, sales, team sports, and product creation, we look forward to Kevin's ability to hit the ground running in one of our most successful markets.

In summary, as we close out the fiscal year amid a dynamic market environment, we are incredibly focused on managing the business and making the hard but necessary decisions now to set ourselves up for a more promising future.

In the near term, this has involved making several leadership changes engineered to address our areas of opportunity. In concert, we are committed to prudent cost management, including identifying and optimizing the investments in our business towards the highest returns.

Over the mid to long term, we are confident in our ability to drive global demand creation and elevate design and product while ensuring the trifecta of product, place, and promotion are optimized to put us on a trajectory to reignite growth and deliver improved value to our shareholders.

With that, I will turn it over to Dave for his comments on the quarter and our outlook.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

Thanks, Stephanie, and good morning, everyone. Our third quarter revenue was down 6% to $1.5 billion, which aligned with our outlook. On a regional basis, North America revenue declined by 12%, coming in at $915 million, which was in line with our expectations. Wholesale was down meaningfully due to challenges in our full-price business, partially offset by growth related to inventory management strategies, which included increased sales to the off-price channel.

Our North American DTC business was down slightly during the quarter. EMEA revenue was up 7% to $284 million, or up 2% on a currency-neutral basis. This was driven by strong growth in our DTC business related to improved traffic trends across our retail and e-commerce channels. Our EMEA wholesale business was also up during the quarter.

APAC revenue was up 7% to $212 million or up 8% on a currency-neutral basis. We saw solid sales growth within our retail stores, and wholesale was also up during the quarter. China was a leading contributor to third quarter growth. And finally, our Latin American business was up 9% to $70 million in the quarter, or up 3% on a currency-neutral basis.

From a channel perspective, wholesale revenue was down 13% to $712 million, with decreases in our full-price and distributor businesses, partially offset by higher sales to the off-price channel. Direct-to-consumer revenue increased by 4% to $741 million due to a 5% increase in our owned and operated store revenue, and a 2% increase in our e-commerce business. And licensing revenue decreased 2% in the quarter to $29 million, driven by declines in our Japanese and North American licensee businesses.

By product type, apparel revenue was down 6%, driven primarily by declines in our train and outdoor businesses, partially offset by strength in our sideline and basketball categories. Footwear was down 7% due to a tough comparison and softer demand, primarily in North America. As a reminder, we had robust growth during the third quarter of fiscal 2023 as a significant volume of footwear products that were previously delayed due to COVID related factory constraints meaningfully hit the market. And finally, our accessories business was flat year over year.

Moving down the P&L, gross margin was up 100 basis points to 45.2% during the third quarter, driven by approximately 260 basis points of supply chain benefits, mainly due to lower freight costs. These tailwinds were better than our previous expectation, and were responsible for most of the overdrive on gross margin. These benefits were partially offset by 140 basis points of unfavorable pricing due to increased promotional activities in our DTC business, our proactive strategy to reduce inventory through our factory houses, and deeper discounts in our sales to the off-price channel, along with about 20 basis points of unfavorable foreign currency impacts.

In the third quarter, SG&A expenses were flat year-over-year at $602 million. Excluding a $23 million litigation reserve expense, adjusted SG&A expenses were down 4% to $579 million.

Next, operating income was $70 million, and excluding our litigation reserve expense, our adjusted operating income was $92 million, which was above our outlook of $65 million to $75 million due to the gross margin overdrive and lower SG&A. After tax, we realized a net income of $114 million or $0.26 of diluted earnings per share. Excluding a $50 million benefit from our final earnout on the sale of the MyFitnessPal platform and a $23 million litigation reserve expense along with the related tax impacts of each, adjusted net income was $84 million or $0.19 of adjusted diluted earnings per share. This came in above our third quarter outlook of $0.09 to $0.11, due to our adjusted operating income overdrive and favorability on the other expense and tax lines.

Now, moving on to the balance sheet. At the end of the third quarter, our inventory was down 9% to $1.1 billion as we trended toward normalized levels. This was in line with our outlook. And as we end the year, we anticipate our inventory to be down at a mid-teen percentage rate, which should put us close to $1 billion.

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, we repurchased $25 million of Class C common stock during the third quarter. This concluded our two-year $500 million program announced in February of 2022, thus retiring 45.6 million previously outstanding shares.

Next, let's turn to our full-year outlook. To start, we have tightened our revenue expectation to a 3% to 4% decline for the full year, which is within our previous range of being down 2% to 4%. This shift within the range represents continued softer wholesale revenue. Breaking this down further, we now expect revenue in North America to be down at a high-single-digit rate versus the previous expectation of a 5% to 7% decline. And we now expect our international business to be up at a high-single-digit rate versus the previous low-double-digit rate increase. From a product perspective, we expect our apparel and footwear businesses to both be down at a low-single-digit percentage rate for the full year.

Next, we expect gross margin to be up 120 to 130 basis points versus our previous expectation of a 100 to 125-basis-point increase. This improvement is related to supply chain benefits and lower-than-expected full-year sales to the off-price channel.

Moving down the P&L, full-year SG&A should be flat to down slightly, which is unchanged from our previous expectation. Dropping this through, our reported operating income is expected to reach $287 million to $297 million. Excluding the company's litigation reserve, adjusted operating income is expected to reach $310 million to $320 million.

Putting it all together, our reported diluted earnings per share is expected to be $0.57 to $0.59, which includes a $0.12 after-tax benefit from our final earnout on the sale of the MyFitnessPal platform and a $0.05 negative impact from our litigation reserve. Excluding these net positive impacts of $0.07, we expect adjusted diluted earnings per share to be between $0.50 and $0.52.

So to close, we remain encouraged by our evolving strategies to turn our inconsistencies into strengths. At the same time, we are maintaining a cautious view of the market, and we will continue to work the levers of our P&L to deliver appropriate financial performance while positioning the company for long-term growth. That means managing our supply chain to maximize gross margin opportunities, tightening expenses, optimizing investments, focusing on cash management, and making prudent capital expenditures in the near to mid-term.

Without question, there's much work ahead of us, and we look forward to sharing more specific details on our year-end call in May, where we will provide our initial thoughts on fiscal 2025. That said, we have confidence in our market sector, and that our work will proactively set us up to return to creating value for our shareholders.

And with that, we've finished our prepared remarks, so I'll turn it back to the operator for Q&A. Operator?

QUESTION AND ANSWER SECTION

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

Operator, are you there? We are showing people in the queue and ready to go.

Operator: Thank you.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

Hello?

Operator: Our next question comes from Simeon Siegel from BMO Capital Markets.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Hey, thanks everyone.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

Thank you.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Good morning.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.
A

Hey, Simeon, how are you?

Simeon Siegel
Analyst, BMO Capital Markets Corp.
Q

Good. Good to hear – nice progress, guys. So Stephanie just wondering if you could share a little bit more on your broader color on how you're viewing North America landscape. Maybe how are you guys thinking about – just when you think about the product and inventory management, feel like you're in a good place and maybe versus competition? Just any color there. And then if we can just – any thoughts on freight and promotions embedded in the full-year guidance. Thank you, guys.

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.
A

Sure. So I'll start, and Dave I'm sure we'll jump in. And good morning, Simeon. Thanks for your question. As it relates to North America, as we highlighted in our prepared remarks, the softness in North America is largely being driven by wholesale. And as the year went on, we saw continued softness in that channel, including at once and replenishment wholesale orders. That's a big piece of the puzzle in North America. And then if you really particularly look at the holiday timeframe, there was quite a lot of promotional activity that impacted our performance and others.

As it relates to inventory, I'll turn it to Dave in a second, but our inventory continues to trend to be in a much better place for Under Armour in the industry overall. I'd say, though, that doesn't necessarily mean there'll be no promotional activity. That really ties to demand. So, there's not always that one-to-one correlation I think people think could be the case.

So, I think we're really, really excited about the game plan we have for North America. I'd highlight, again, Kara Trent coming back to lead that business. She has a great track record from her time in EMEA. Terrific leader, terrific relationship with wholesale partners, disciplined segmentation, great targeted marketing efforts that have been driving the brand in that part of the world. And we know she's going to bring those same skills and leadership back, when she starts her role in about a week here in North America.

So, we're excited about the work underway and our efforts around marketing and product and distribution, which I'm sure we'll get into further in the Q&A. But Dave, why don't you weigh in on inventory, that specific question?

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

Yeah, I mean, I think you covered the inventory pretty well in that the market, we think, is coming back to normalization at this point. Maybe a little bit longer to go, but pretty close. However, we are still seeing a fairly promotional environment out there, even with the inventory levels at the retailers in a lot better place. So, I think the retailers are being fairly cautious and still really trying to keep clean after a year or two of obviously having more than they wanted. So, we do see some of that promotional impact on gross margin continuing a little bit.

And so, you asked a little bit about freight and promotion relative to our assumptions on the full-year outlook, or essentially Q4. And I would say that from a freight perspective, we've seen the rates normalize pretty well at this point, and they had really stopped with the big increase in our fiscal Q4 of last year. So when we think about Q4 of this fiscal year as we finish out the year, we're kind of at a more stabilized freight rate in Q4. So, that's not going to be a huge tailwind for us in Q4.

However, we are starting to work more deeply with our inventory vendors and have made a lot of progress on some of the costing initiatives there, which we're seeing some of that benefit favorably for Q4 of this year. And then I did mention relative to the promotion levels, we do anticipate it continuing to be more promotional than normal for a while here. And so, we're continuing to expect that in our full-year forecast as well.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Great. Thanks a lot, guys. Best of luck for the quarter and the rest of the year.

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

A

Thanks.

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.

A

Thank you.

Operator: Thank you. Our next question comes from Jay Sole, UBS.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. My question, just a little bit on Europe. If you could just maybe touch on that business, how the wholesale channel there is looking, if it's different than the comments that you made about the US. And then, Stephanie, love to hear a little bit more about the product innovation pipeline, what you see coming over the next couple quarters and really into the Olympics perhaps. Would love to hear your view on that. Thank you.

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.

A

Yeah, sure, of course. As it relates to EMEA and Europe, that continues to be a strong market for us. The brand is doing very well there. That being said, we mentioned this in the remarks, we're seeing a little bit of cooling there with the consumer, particularly in Eastern Europe in some of our distributor markets. But again, the European market, particularly in England and Spain and France, is very strong for us.

Let me touch on product and I'll let Dave jump in on Europe as well. But on the product side, I mean, we have a lot to be excited about. With Yassine, Yassine just started last week, but we're super excited to have him as our new Chief Product Officer. And of course as we've shared with you, about five months ago John Varvatos joined us as our new Chief Design Officer. And there's just a lot of exciting things happening on both the apparel side and the footwear side.

So, let me hit a couple things that we're excited about. On the apparel side, we continue to see a lot of traction with our Meridian product for women. Where we're really winning with women is in legs – or sorry, is bottoms and tops, and particularly with bras. We're having a lot of success there. I mentioned that we've got some exciting new things coming with our Unstoppable franchise, that it's really going to be terrific. And our core Baselayer really has some new upgrades in terms of fit and colorways and we're excited about that on the apparel side.

On the footwear side, we have some real traction with Curry and the Curry 11. Excited about what's happening with our running footwear, in particular, with our Velociti, Elite and Infinite franchises. As a quick reminder, the Velociti Elite running shoe was worn by last year's New York City's Marathon winner, Sharon Lokedi. She wore it again this year and came in third place with only a couple seconds off the top spot, which is remarkable. So, that Velociti running shoe is a real winner at the highest levels of performance and running.

And then on the Infinite shoe, we've really re-imagined the HOVR technology, which is incredible cushioning. And so we have a base, pro, and elite level with that shoe really hitting that segmentation of good, better, and best. So, we're excited about that.

But we're just getting started. Again, Yassine just started last week and we've got an amazing team here that's put – has a great innovation pipeline, but we're excited to see what Yassine in partnership with the new head of footwear, when he fills that position. That search is underway, and of course, with our design talent.

So, we're excited with what we've got in the product pipeline. I will say it's worth noting that it will take time, though. When we think about the product creation cycle in terms of any real mass of new product, I think we're looking at spring/summer 2025-plus, just given the product creation cycle that we're dealing with. But Dave, do you want to jump in with any additional color on Europe?

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

I mean, I think the only thing maybe that I would point out is we have a lot of strength moving forward in Europe, which is great to see. I think one of the points that is a little bit of pressure is just some of the Red Sea shipping disruptions do impact us a little bit there. And that is part of what went into our outlook tightening, is that we see about a one point headwind from the Red Sea impacts, and that's primarily related to EMEA.

And then obviously, there's some geopolitical challenges in that region as well that we're dealing with. So we're working through that. And that's really, when I'm mentioning that one point headwind, that's really talking about fourth quarter and as we see it finishing out the year.

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.
A

I'd add one more thing on the product side, just really quickly. I should have mentioned because it's getting a lot of traction, is with our SlipSpeed Mega, which we did a soft launch at the UA All-American Game. We did a soft launch there. We have a very cool activation at the Super Bowl this weekend, but the SlipSpeed Mega, it's a very cool shoe that I think is really resonating with consumers. So that's another highlight on the footwear front.

Jay Sole
Analyst, UBS Securities LLC
Q

Terrific. Thank you so much.

Operator: Our next question comes from Laurent Vasilescu, BNP Paribas. Please proceed.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Q

...taking my question. I was hoping to drill down on North America wholesale. If possible, could you possibly quantify how down North America wholesale was for the quarter, or just your expectation for the year, so the audience can better understand the dynamics within this channel? And are you starting to see – are you starting to have the conversations with North American retailers regarding restocking of inventories, particularly for the back half of 2024? And then just, Dave, on that point on the Red Sea, I understand there's some delays. But can you maybe just share with the audience how much you're contracted out? And when do you renegotiate your contracts with the shipping merchants?

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

A

Yeah. So I guess a couple things. North America wholesale is definitely a pressure point. We've talked about that. We've talked about kind of the softer orders as we saw coming in through fall/winter 2023, and also a little bit relative to spring/summer 2024. We haven't been quantifying the actual percentage for the channel within a region, but definitely is a pressure point. And we're continuing to see an experience where our DTC channels in North America are performing much better than where we are with wholesale.

I think again, the retailers are being very cautious right now even though the inventory levels at retail are in a much better place. And that's why we're continuing to see some of the promotional levels as well. When you think about the Red Sea impacts, we are seeing some impacts there from shipping disruptions mainly impacting EMEA. The impact includes some increased shipping costs as well, not just some delays. And to kind of think about that, about 20% or so of our global apparel comes through that area, so it is meaningful to us.

We're mitigating that through regional air freight, adjusted shipping lanes, differing forward buys, PO prioritization, et cetera. So, and with all that, we don't really see any concerns with daily operations of our inventory vendors in that region. But again, we are estimating for Q4 about a 1 point revenue headwind because of the delays and mainly the impact on the EMEA region, and that's considered in our tightening of our outlook for the full year.

Laurent Vasilescu
Analyst, Exane BNP Paribas

Q

Very helpful. Thank you very much.

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

A

Sure.

Operator: Our next question comes from Bob Drbul, Guggenheim.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Hi. Good morning. Stephanie, just I guess, a bigger picture question for you, but you've made a significant amount of new hires, new leaders since last summer. When I look at the list and think about it Chief Design Officer, Supply Chain Product Officer in Americas. When you think about all these new leaders in the organization, how should we think about the time it will take for the organization to actually absorb the leadership changes, the impacts on the culture, the execution, eventual change and [ph] feel of (00:40:04) the years ahead?

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.

A

Well, good morning, Bob, and thanks for that question. During my first year, my top priority was building out the right team, and to build out the right team to address some of the inconsistencies and challenges that we've had in the past. And you're right, there's been a lot of change. Let me just put a little more color around it. I've been in the job for about 11 months, coming up on my first year. But since last summer, we've filled the following jobs.

Let me just tick through them quickly. Chief Consumer Officer, Jim Dausch, seasoned Marriott executive, a lot of experience in product, marketing, sales, and brand; a new Chief Communication Officer, Amanda Miller, came from PayPal, bringing us real PR horsepower; new Chief Design Officer, John Varvatos, great experience with his own company, Ralph Lauren, Calvin Klein, Converse; a new Chief Supply Chain Officer, Shawn Curran, a 30-year veteran at The Gap, who was most recently the COO at Old Navy, but held various positions at that company over the years; a new Chief Product Officer, Yassine Saidi, who started, again, last week, as I mentioned, coming from some powerhouse brands and most recently, owning his own company, so he's got that entrepreneurial spirit. A new President of the Americas just starting, Kara Trent, an industry and UA veteran. We talked about how spectacular she's going to be in her new role.

I mentioned that Kevin Ross will backfill Kara and EMEA, a 25-year veteran of the industry, knows UA, was with us for nine years, but experience at TaylorMade and YETI in addition to Under Armour. We did also – I didn't mention this, but – in my remarks, we did hire a new SVP of direct-to-consumer for the Americas last summer too, Josh Denton, an Under Armour veteran who came back to us. And we have an open CMO role and a new head of footwear that I covered in my prepared remarks. So when you put all that in the blender, that is a lot of change in roughly six months. What's terrific is, again, these executives who all have really incredible backgrounds, have hit the ground running. I'm so excited to see how well they're working together.

Interestingly, Yassine and Kara work together for close to nine years at Puma. So to have the Head of North America and the Head of Product already have a deep working relationship between the two of them is terrific. Of course, when you think about executives like Kevin Ross and Josh Denton coming back, they know UA. So this team has hit the ground running, but they do need time to settle in, get their teams organized.

I should underscore too, we have amazing talent at Under Armour already that these leaders are joining. Really deep experience, particularly in terms of performance apparel, performance footwear. So we've got a great team at Under Armour. We've brought these critical new roles in. Most of when you think about it are on a forward-facing part of the business. I put supply chain in there, too, because if we can't get things to the right place at the right time, they won't be delivered to the customer. It's got quite a lot of work underway on the supply chain front under Shawn's leadership. So it's going to take some time to get going. But I'm confident that we have the right team, we have the right strategy and we're firing on all cylinders. So I'm excited with the amount of progress we've made on the talent front in less than a year.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Good luck. Thank you.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

Thanks, Bob.

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

A

Thank you, Bob.

Operator: Our next question comes from Sam Poser, Williams Trading.

Sam Poser
Analyst, Williams Trading LLC

Q

Thank you very much for taking my question. I've got three, and I'm just going to read them all up. One, when we think forward, do we anticipate that the SG&A is going to go down? And then you mentioned the Olympics, is that going to be like a pump up of investment at the end of Q1 into Q2 of next year? And then two is, what's the base of – like what's the base sales you look at for North America? Are we close to it? And then on product, it's like use of logo, you've got some good stuff going on with some of the Unstoppable apparel, the Fat Tire, the Forge 96, that really don't scream with the big UA logo and seem to be doing generally better than most out there of the non-Curry product. And I just wondered sort of directionally how you're thinking of logo use and stuff like that and maybe exploiting some of those styles that are sort of quieter, don't make the list that often, but appear to have pretty good demand. Thanks.

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

A

Yeah, Sam, this is Dave. I'll take your first two questions, and then maybe I'll hand off to Stephanie on the logo. Relative to SG&A and going forward, obviously, this is an area that we continue to focus on. We've worked hard over the past few years to become more agile from a cost structure perspective. But we do have more work to do, and we understand the areas of highest returns, and we're continuing to validate those and also understand where the best investments need to go.

So this is a continual work in process. We continue to drive further savings within our hiring, our incentive comp, tightening up our marketing prioritization, spending, travel and entertainment, et cetera. And we're going to continue that work as we drive into next year. So could we drive SG&A lower? Potentially and that's our focus is to be able to be as optimized as possible, and we're going to keep working with that.

Relative to North America, I think your question is how we hit base sales level for North America. And I would say that's kind of a loaded question because there's a lot of decisions within that. And we know that we want to continue to strive to be more premium. We know that we want to make some right choices as far as backing off of some of the deeper discounts, for example, on our website. So all of that goes into the blender as we think forward. And as we get to our May call, we'll be getting into much more details on fiscal 2025 and beyond.

And then as far as you mentioned the Olympics relative to SG&A, and is that going to be a heavy investment? Obviously we're going to activate some things around the Olympics, but it is not a large investment for us, so it shouldn't be a big pop in SG&A for us in any way. Stephanie, do you want to take the third point on logo?

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.

A

Sure, of course. And good morning, Sam. Thanks for your questions. On the logo front, I mean, you highlighted some of our best-performing franchises when you mentioned Unstoppable. I'd put Meridian in there, Baselayer. And I think our design teams always do a terrific job of finding the most appropriate and elegant and stylish way to place our logo. And so we'll continue. That's in the very able hands of Yassine and John Varvatos as we think about logo treatment. I think there's a broader point I'd like to make, though, around where we're headed with Sportstyle because I think that that's going to be a really important part of our story in the years to come.

And let me define Sportstyle again. We are not trying to be anything other than authentically Under Armour, and performance is in our DNA. It always will be. So for us, Sportstyle is that intersection of performance and style, and they're inextricably linked. And I think what you'll see from us, and we're thinking about Sportstyle as really more of an evolution versus a revolution. And we started with Phase 1, which is remerchandising and remarketing products to demonstrate kind of that non-active use occasion.

And some of the franchises you mentioned, Unstoppable and Meridian, would be great examples of where we have an opportunity where we have great, particularly on the apparel side, Sportstyle offerings, but we need to market them differently, and we're doing that. And then Phase 2 is really when we'll see more new product. We've already done some limited run capsules and some smaller collections or groupings of items. But again, it's not until spring/summer 2025-plus where we think we'll see more mass in terms of new product, given the product creation cycle. But again, throughout all of that, our talented design teams will be figuring out the best way to place the Under Armour logo for maximum return. So again, we're excited. We're excited about where we're headed with product and including the best use of our logo.

Sam Poser
Analyst, Williams Trading LLC

Q

Just one last thing. I mean, the one thing about the logo is, is that like on the Forge and some of these other ones, they're there, but they're more discreet. So it makes the shoe more flexible rather than having the big Under Armour logo, like on the side of the shoe, which then makes it more active. Having it more discreet would make it more style, regardless of what the design of the shoe is, or apparel for that matter.

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.

A

Yeah, again, I think it depends on what's the particular item and what's its use. And so we'll continue to always be evolving and looking at the best way to, like, I think, like all world-class brands, the best way to use our logo. But you gave an example with a couple items where it was more, less smaller, but I think we'll continue to evolve and work on that.

Sam Poser
Analyst, Williams Trading LLC

Q

Thank you very much.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

Thanks, Sam.

Operator: Our next question comes from Jim Duffy with Stifel.

James Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Thank you. Good morning.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

Morning, Jim.

James Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Stephanie, prepared – good morning, everyone.

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

A

Morning.

James Duffy
Analyst, Stifel, Nicolaus & Co., Inc.

Q

Prepared remarks and comments are fairly deliberate about your subdued expectations for the North American marketplace, the timing for inflection. Can you give us some perspective on what you're hearing in your discussions with wholesale partners? What are their forward thoughts on consumer spending behavior? What's the messaging on subdued orders despite what seems to be pretty well-managed channel inventories? What are they asking of Under Armour at this point? And then I have a question on DTC.

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.

A

Yeah, I'll start, and then I'll kick it over to Dave to add his perspective. I mean, we talked about the pressure that we're seeing in North America this year. And as we think about heading into fiscal year 2025, I think we can see some anticipated continued bumpiness. When I think about the fall/winter 2023 order book, that, of course, has an impact on the order book coming up. I should note, we're in the middle of it right now. So we're not going to comment on fiscal year 2025 in any detail today. But I think it's fair to say for the first part of the year, we'll see some continued bumpiness. Dave can jump in on that.

But I think what we're working very, very closely with our wholesale partners to make sure that we have the right assortment. And we are continuing to work with our wholesale partners as we deliver more better and best products to make sure that we get those better and best products on their shelves.

And so, they're – our wholesale partners are incredibly important to us. When I think about our strategy on that side of the house, it really is all about getting more shelf space and better product in our existing partners, but then opening new doors of distribution, too, on the wholesale side. And that ties to having new product offerings.

So, that is an important part of our business. I think, again, and particularly in North America with Kara coming back to lead our charge there, she has tremendous relationships with wholesale partners. I think that's going to just further bolster our success in this area. But I know you had a question on DTC, but let me, let Dave jump in on wholesale, if he wants to add any other information.

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

A

Yeah. I mean, I think we've talked, as Stephanie mentioned, around the environment and the continued discounting, which is a little bit of a headwind. I would say the other thing, as we're finishing out the year and moving into next year is, again, we are looking to try and push harder into more premium distribution. We've got some good early reads on mall penetration and new doors there, which is good. And then also, we're going to continue to edit and improve our segmentation as well, as we move into next year. But again, it is a little bit bumpy out there still, and it's still a pretty promotional environment.

James Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thank you. Then just quickly on the DTC, you spoke to your intent to be less promotional in North America DTC that seems to suggest you're planning for declines in fiscal 2025, lapping more promotional compares in fiscal 2024. Is that a fair assessment?

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.
A

Yeah. So Jim, we're not going to get into details on fiscal 2025 yet, but I will say as it relates to our own DTC channels, let me start with our website and our Shop app. We've made a lot of progress on the functional side of that channel, things like improving mobile speed, better search algorithms, upgrading product description pages, et cetera. So, there's been a lot of great work done on improving conversion and having a more functional website in Shop app.

At the same time, and I think this is where you're headed, we do have plans to reduce our dependence on promotions. We need for ua.com and our Shop app to be the most premium expression of our company. It's our largest storefront, when you think about it. So we are going to reduce our dependency on promotions. Could that have some reduction in revenue? Yes, it could. But at the same time, it will lift ASPs, it will drive profitability, and it will lead to a much better, more premium experience for our customers. So, that's one piece of the DTC channel.

The other part is our stores, our physical stores. I mentioned this in my prepared remarks, but we have a great effort underway to reimagine the Under Armour brand house of the future, a smaller store format, curated with more premium offerings, an easier to shop experience. We're going to be piloting our new concept later this year with a goal to roll out more full-price brand houses in the years ahead. We know that our ratio of factory to full-price brand houses is not where we want it. So, there's a lot of effort underway to think about our physical space as well. And we all know that those two are inextricably linked, meaning the physical and the digital. So, we've got a lot of great work underway on the direct-to-consumer front as it relates to the future.

James Duffy
Analyst, Stifel, Nicolaus & Co., Inc.
Q

Thank you.

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

Thanks, Jim.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.
A

Thanks, Jim.

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.

A

Thank you, Jim.

Operator: Our next question comes from Tom Nikic, Wedbush. Please proceed.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

Tom, you there?

Operator: Tom, your line is open. You may proceed. Our next question – [Operator Instructions]

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

We can go to the next person on the list, operator. It's fine.

Operator: Our next question comes from Paul Lejuez with Citi.

Kelly Crago
Analyst, Citigroup Global Markets, Inc. (Broker)

Q

Hi, there. This is Kelly on for Paul. Thanks for taking our question. I just wanted to dig in a little bit more on the growth margin. It looks like you're guiding up 200 basis points or so in the fourth quarter. And you mentioned some costing initiatives. Just wondering if you could elaborate on that. And if there's any sort of raw materials deflation that is benefiting you guys and whether that can continue into F 2025? And then on the freight side, while it's no longer going to be a benefit, is there any chance with some of the Red Sea pressures that freight could become a headwind to the gross margin in the next 12 months based on what you're seeing today? Thanks.

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

A

Yeah. Kelly, this is Dave. Relative to Q4, there are definitely a few puts and takes that we're seeing there. We do expect some continued supply chain benefits in Q4. But that's shifting a little bit more towards the product costing initiatives that we're working on with our vendors that we're going to – starting to see those benefits in this Q4 and then looking to see full-year benefits next year.

The freight component, obviously, we saw pretty substantial tailwinds in Q1, Q2 and Q3 of this year. But again, those have kind of normalized for Q4, so not as much of an increase year-over-year for Q4.

Now to your point, relative to the Red Sea, we are seeing some increased shipping costs, but we're probably in the neighborhood of $1 million or $2 million there, not something that is significant at this point. So we're managing through that, and that's all considered in our tightened outlook as well.

And then a couple of the things that are going to be a little bit of headwinds for Q4, we do believe that the kind of promotional environment's going to continue a little bit longer. So that's assumed in our Q4 as a headwind, and potentially a little bit of FX pressure. So those are kind of the main puts and takes as we think about Q4.

Q

Got it. And just lastly for me, any way to quantify, or could you quantify for us the percentage of your off-price sales this year, particularly within North America and how that's trending relative to historical? Thanks.

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

A

Yeah. We've worked really hard over the last few years to really get our inventory management into a good spot and manage the off-price channel in what we feel is a pretty healthy range. And so we were targeting in the 3% to 4% of global mix of third-party liquidations. And that's generally where we're running. In fact, as we finish out this year, this fiscal year, we'll probably be at the lower end of that 3% to 4% total mix. Relative to North America, it's not that different, but we don't really get into the mix per region per se.

Q

Thank you.

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

A

You're welcome.

Operator: Thank you. Our next question comes from Alex Straton with Morgan Stanley.

Alex Straton
Analyst, Morgan Stanley & Co. LLC

Q

Perfect. Thanks.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

This will be our last question too. So Alex, I'm just going to let everybody know this is going to be the last question, so appreciate it. But go ahead, Alex.

Alex Straton
Analyst, Morgan Stanley & Co. LLC

Q

Yeah, no problem. Thanks a lot for taking this one. So Stephanie, you noted a lot of leadership changes. I just want to drill down on how you think about when they can start to have an impact on the P&L from a timeline perspective. And then also, in the meantime, because understanding that can't be done immediately, what are the KPIs, in your view, that you're watching that we should be watching for signs of some of these initiatives flowing through?

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.

A

Sure, of course. Well, these leaders have hit the ground running. So I think they're impacting the business right away. I don't want to tick through each one of them again, but for example, I'll use John Varvatos as just as an example. He's been here five months, and day one, he started looking at things like fit, finish, trim, color. So we're seeing the leaders have an impact on day one, but it will take time in terms of bigger, broader impact across the business.

In terms of the KPIs that we're going to be looking at, I mean it depends on the area, but let me hit on some that we're really focused on. In terms of the consumer and marketing KPIs, we are constantly keeping an eye on our loyalty, our UA Rewards signups, and equally important activations. I mean, the loyalty program will be the backbone of our consumer strategy. It's all about customer acquisition and all about customer activation. And I mentioned some of the good progress we're having there in terms of not only signups, but increased spend from our loyalty members.

And then on the marketing front, there's all sorts of leading and lagging indicators that we'll be looking at, and I'm sure over the course of our time with you, sharing updates on things like search demand. I mentioned in my prepared remarks some of the progress we're having with social media. We've really changed our marketing approach to be more product focused, more digital, social, always on, that's where the consumer is. And so we're always looking at the metrics on that critical marketing channel, NPS scores, increased earned media. Then we'll be looking at more lagging indicators as we move forward; increased full price sales, faster sell-through of our key franchises.

As we open more doors, further doors of distribution, getting into more specialty retail; seeing things like more UA sold on the aftermarket. So there's a lot of consumer metrics, both leading and lagging KPIs that we'll be looking at.

Then we have made a lot of good progress over the past couple years on supply chain. But this is where we still have more work to do, so we're focused on – Dave touched on this, our cost of goods sold, SKU rationalization, better segmentation that will lead to ASP expansion. We'll be sharing more with you on our priority investments and the results there. So there's a whole host of KPIs and metrics across the business that we will be focused on and tracking and sharing with you as early indicators of how we're making progress along the way.

Although, I'll end where I started with, which is my excitement about the team we've built here. We have brought in some fantastic executives to join our already fantastic team at Under Armour. So I couldn't be more excited and more thrilled with the team we're building here and our future. We've got a lot of great stuff underway. So thanks for your question.

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

Our team's on the field.

Stephanie C. Linnartz
President, Chief Executive Officer & Director, Under Armour, Inc.
A

Our team's on the field. That's right.

Alex Straton
Analyst, Morgan Stanley & Co. LLC
Q

Great. Good luck.

Lance Allega
Senior Vice President-Investor Relations, Treasury and Corporate Development, Under Armour, Inc.

A

Thank you.

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

A

Thank you.

Operator: Thank you for attending today's call for Under Armour third quarter of fiscal 2024. This now concludes today's call. Have a great day.