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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Under Armour Fourth Quarter Earnings Webcast and Conference Call. At this time, all participants are in listen-only mode. After the presentation, there will be a question-and-answer session. [Operator Instructions]

I'd now like to hand the conference over to Lance Allega, Senior Vice President, Investor Relations and Corporate Development.

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

Good morning. Thank you, everyone, for joining us for Under Armour's fourth quarter and full year fiscal 2021 earnings conference call. Information provided on today's call will include forward-looking statements that reflect Under Armour's view of its current business as of February 11, 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 is important to note that the ongoing uncertainty related to COVID-19 and its potential effects on the 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 and currency neutral terms which are defined under SEC rules in this morning’s press release.

You may also hear us refer 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 President and CEO, Patrik Frisk; and CFO, Dave Bergman. Patrik?

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

Thank you, Lance, and good morning, everyone, and welcome to our fourth quarter and year end 2021 conference call. At the beginning of last year, we were confronted with significant uncertainty about our business due to impacts from the COVID-19 pandemic. With dynamic changes in purchase behavior and marketplace demand, we faced several obstacles as we worked through what we believed to be a recovery year following a difficult 2020. At that point, it would have been easy to stay conservative and adopt a wait-and-see strategy, yet the tremendous progress we made following our multiyear transformation including healthier demand for the Under Armour brand and the passion that this team shows up with every day meant going on offense was the only path for 2021.

And because we stayed on offense, Under Armour delivered a record year of financial results, a year that exemplifies the power of our long-term strategic plan and our ability to stay hyper-focused on execution while leveraging our core strengths to position us more strongly for our next chapter of growth.
Throughout 2021, we worked methodically to expand our brand's awareness and engagement, ensuring we showed up more consistently, louder, and with a sharper point of view about the distinct role we play in an athlete's journey to compete. We underscored our commitment to performance by delivering some of the most innovative products that we've ever produced. We forged deeper and more productive relationships with our key wholesale partners. We saw significant progress in our largest long-term growth drivers, our international, direct-to-consumer, Women's, and Footwear businesses, and we're stronger financially than we've ever been.

In this respect, looking at some of our highlights, while our year-over-year comparisons benefited from the significant COVID-19 impacts we experienced in 2020, we are equally pleased with our performance over the past two years. For the full year 2021, revenue was up 27% to reach $5.7 billion, which is a record, versus 2019 revenue was up 8%, so solid progress from before the pandemic and the result driven by several strategies that have lifted the quality and composition of our sales compared to a few years ago.

Breaking that down, wholesale revenue increased 36% to $3.2 billion in 2021. On a two-year basis, wholesale is up 3%. As detailed on previous calls, this performance has been tempered by the strategic decisions we've made to improve brand health by reducing our sales to the off-price channel and exiting approximately 2,500 undifferentiated retail doors in North America, an effort which is now concluded.

Our direct-to-consumer business was up 26% to $2.3 billion in 2021. Versus 2019, direct-to-consumer was up 29% with strong momentum in our owned and operated stores and our eCommerce business. Following a 40% increase in 2020, our eCommerce business was up 4% in 2021 equating to 45% growth on a two-year stack. This result gives us confidence that this business is well positioned following a prolonged period of elevated promotional activities.

2021 gross margin was up 210 basis points to a record 50.3%. Versus 2019, gross margin is up 340 basis points, so excellent progress over two years driven by benefits from pricing and a more favorable channel mix being offset by supply chain headwinds related to COVID-19 and the absence of MyFitnessPal, which we sold at the end of 2020.

Rounding out the P&L, our full year operating income reached $486 million, net income was $360 million, and our diluted earnings per share was $0.77, all three of which are records.

We also realized strong balance sheet and cash flow performances with inventory down 9% to an absolute dollar value that is only slightly higher than in 2015 when we were a $4 billion business.

And finally, one more record, having ended the year with $1.7 billion in cash.

All in, what an incredible period for Under Armour. Having operated for nearly two years amid a global pandemic, I am proud of the progress we’ve made, the resilience we’ve shown, and the potential we have to do even better in the future. By staying focused on our key strategies, we are competing and executing at progressively higher levels, helping us unlock value and returns for our shareholders.

Driving us forward at the heart of why we exist is our purpose. We empower those who strive for more. For Under Armour, everything is about the journey. From an awful workout when you want to quit but don’t, to pushing through that last rep and adding one more, to earning that PR because you put in the work, Under Armour makes you better. We do this by delivering innovative products, experiences, and styles influenced by athlete insight and real-world data, innovations [ph] wrapped norm (00:06:30). Engineered to empower the journey to sport through training, competition, and recovery, 2021 was an exceptional year for Under Armour products.
There are too many to list, but a few standouts on the Apparel side include RUSH, Iso-Chill, Rival Fleece, Crossback, Infinity, Unstoppable and Meridian, all names that delivered a 33% increase in revenue we achieved. On the Footwear side, franchises like HOVR Sonic, Machina and Infinite, UA Flow Velociti Wind, Charged Pursuit, Assert, Aurora, Curry, and Project Rock contributed nicely to 35% growth, validating one of our largest long-term growth opportunities.

2021 was also an exceptional year in Under Armour's progress to connect our brand even more deeply with consumers. From the optionality we created in our P&L, we were able to make incremental marketing investments, which we expect to fuel even stronger brand momentum in the years ahead.

At the center of these efforts, product, experience, and inspiration sits The Only Way Is Through. More than a mantra, it's become an ethos synonymous with the hard work necessary to power the journey, and it's always a journey. From an initial product drawing to a shopping bag to the closet, we obsess athletes and those who strive for more.

However, being purpose-led means that it's about more than just shirts and shoes, and sport is so much more than just a game. It teaches us to push past our limits, to be collaborators, to be leaders. It increases confidence, reduces stress, and improves mental health, yet many young athletes face barriers that prevent them from starting their journey to sport. With a lack of fields and courts, gaps in coaching, shrinking leagues, and the shortage of gear to play, train, and compete with, we recognize that not everyone has access to sport.

Addressing this opportunity a few weeks ago, we announced a long-term commitment of our resources, focus, and energy to break down these barriers as we laid a foundation for our access to sport initiative, we are excited to share more in the years ahead as we build opportunities for millions of youth to engage in sport by 2030, ensuring that the next generations of focused performers are inspired even more holistically than those before them.

Now, back to our business. And the last two years have proven to be one of the most dynamic, yet opportunistic times in Under Armour's history. Managing the marketplace prudently through a constant focus on operational excellence to ensure we're keeping the brand healthy and moving forward, we are delighted with our results. That said, let's look at how our regions performed in 2021, starting with North America, where revenue was up 29% to $3.8 billion or up 4% since 2019. In our largest market, we continue to focus on three fundamentals. First is becoming a better retailer by creating more compelling in-store experiences and delivering best-in-class service across our fleet. Additionally, this means continuing to build on the momentum we've seen in our eCommerce business. Realizing we'd likely see traffic declines compared to the abnormality that was 2020, we stayed focused on quality by investing in high-return vehicles like targeted PLAs and improved product way finding to improve our online shopping experience, and it's working.

In 2021, while we did experience a year-over-year traffic decline, it was more than offset by a meaningful increase in conversion, and therefore, solid revenue growth.

Second, with a critical mass of undifferentiated wholesale door exits behind us, we are encouraged by the productivity KPIs we're seeing across this channel in North America. A more premium position, driven by outstanding inventory management and promotional discipline, is translating nicely to additional shelf space opportunities with our largest strategic partners, higher AURs, and significantly better turns.
And that last point, turns, which is really about execution, is a core element of what gives me confidence that we’re in an excellent position to adapt to however the environment may develop over the short term.

Third, we are continuing to drive performance by investing more smartly in marketing, which shows up in improved brand affinity scores around awareness, consideration, and conversion. Gaining better productivity from how, where we spend has always been the goal. By delivering higher-quality traffic through strategic paid media and targeted email activations, our ability to connect more meaningfully across key moments and multiple platforms has never been greater.

Turning to our international business, revenue in EMEA was up 41% driven by nearly 50% growth in our wholesale business and continued momentum in direct-to-consumer. We are encouraged by the quality of business results delivered in 2021. Our efforts to position Under Armour as premium performance, healthier wholesale relationships, and improved retail capabilities continue to validate the power of our playbook.

Our two-year performance is strong as well with revenue in EMEA up 36% versus 2019.

Next up is Asia-Pacific, where revenue was up 32% in 2021 driven by nearly 50% growth in our wholesale business and a strong increase in direct-to-consumer sales. Clearly, the story here is about a more challenging environment that has developed in China as of late, as evidenced by a 6% decline in our fourth quarter APAC revenue. The recent market trends in China are impacting our business. However, our focus in China remains the same, staying premium, continuing to invest in digital innovation, including working to deliver much improved end-to-end consumer engagement platform, and ensuring that store expansions are done at an appropriate pace amid dynamic market conditions.

Versus 2019, revenue in Asia-Pacific was up 31%, so strong growth on a two-year basis.

And finally, revenue in our Latin America region in 2021 was up 18% driven by strength in our full-price wholesale and distributor businesses. As a reminder, we have transitioned certain countries in this region to a strategic distributor model, a decision we believe will begin to optimize this region's ability to grow and contribute more profitably in the years to come. Versus 2019, revenue in Latin America is about flat on a two-year basis.

So, in closing, we remain both confident and cautious in this operating environment, and while current macro factors are having material impacts on our business, we have no intentions of sitting idle. Innovation, consumer connectivity, and inspiring those who strive for more are not tactics at Under Armour; they are our way of life.

Moving forward, we believe that the things we can control will continue to serve us as strengths, just as they did in fiscal 2021. Regardless of the short-term environment, we are running a stronger, better company, one that is increasingly more capable of delivering sustainable, profitable growth and value creation for our shareholders over the long-term. I am pleased with where Under Armour is sitting, incredibly proud of this team, and in my nearly 5 years here, I have never been more excited about our future.

And with that, I'll hand it over to Dave.

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

Thanks, Patrik. Since the beginning of COVID-19 pandemic, our intent has been to deliver appropriate financial performance while protecting the Under Armour brand and positioning ourselves for sustainable, profitable growth over the long-term. Leveraging the strength of a data-driven consumer-centric strategy and a constant focus on
operational excellence, we believed we could emerge from this unprecedented time as a stronger, more profitable company.

Despite the high level of uncertainty, we committed to staying agile to minimize downside risk, while executing against our playbook to help us capitalize on upside opportunities as they arose. In 2021, we did just this.

That isn't to say that uncertainty is over. We remain vigilant about the dynamic environment we are operating in, including ongoing supply chain headwinds, rising wages, and inflationary input cost pressures that continue to permeate the marketplace. Yet we remain confident in our ability to deliver against our plan by staying focused on our business strategies and remaining nimble as we implement them.

Our fourth quarter results reinforce that confidence. Compared to the prior year, revenue was up 9% to $1.5 billion. As a reminder, we expected several headwinds in the quarter including lower sales of SPORTSMASKs, lower sales to the off-price channel, the absence of MyFitnessPal, and proactive supply constraints, among others.

Versus our previous expectation, our revenue overdrive was primarily due to higher demand across our full-price wholesale and direct-to-consumer businesses, particularly in North America, coupled with better-than-expected supply chain execution during this challenging environment.

From a channel perspective, fourth quarter wholesale revenue was up 16% driven by strong performance in our full-price business partially offset by lower year-over-year sales to the off-price channel.

Our direct-to-consumer business increased 10% led by 14% growth in our owned and operated retail stores and 4% growth in our eCommerce business. In addition, our eCommerce business is up more than 30% on a two-year basis. And licensing revenue was down 33%, driven primarily by the recognition timing of minimum royalty payments.

By product type, Apparel revenue was up 18% with strength in our training and outdoor businesses. Footwear was up 17% driven primarily by our running and training categories. And our accessories business was down 27% due to planned lower sales of our SPORTSMASKs compared to last year's fourth quarter.

From a regional and segment perspective, fourth quarter revenue in North America was up 15% to $1.1 billion driven by premium growth in our full-price wholesale and direct-to-consumer businesses. So excellent barometers to improving brand strength and consumer demand in our largest region. Compared to 2019, North American revenue was up 8% in the fourth quarter driven by higher quality revenue than two years ago.

In our international business, EMEA revenue was up 24% driven primarily by strength in our wholesale business. Compared to the fourth quarter of 2019, revenue in EMEA was up 11%.

Next up is APAC, where the business was down 6% in the quarter driven by softer demand in our wholesale business which more than offset DTC growth. Compared to 2019, total APAC revenue was up 19%.

And finally, in line with expectations, Latin America revenue was down 22% due to the change in our business model as we moved certain countries to distributors, an effort which is now completed. Versus the fourth quarter of 2019, Latin America was down 20%.
Related to gross margin, our fourth quarter improved 130 basis points to 50.7%. This expansion was driven by 350 basis points of pricing improvements due primarily to lower promotional activity within our DTC business, favorable pricing related to sales to the off-price channel, and lower promotions and markdowns across our wholesale business. And 90 basis points of benefit related to lower restructuring charges. These improvements were partially offset by 190 basis points of COVID-related supply chain impacts driven by higher freight costs, which meaningfully offset product cost benefits during the quarter.

80 basis points related to the absence of MyFitnessPal, and 50 basis points of unfavorable product mix related primarily to lower SPORTSMASKs sales, which carry a higher gross margin.

Versus our previous expectation, our fourth quarter gross margin over-delivery was primarily due to favorable pricing developments from lower than planned promotional activity within our DTC business, more favorable pricing related to sales to the off-price channel, and lower than planned promotions and markdowns within our wholesale business.

SG&A expenses were up 15% to $676 million primarily due to increased marketing investments, incentive compensation, and non-salaried workforce wages.

Related to our 2020 restructuring plan, we recorded $14 million of charges in the fourth quarter. In this morning’s press release, we noted that we have reduced the high end of our planned expectations by $25 million, so we now expect to recognize total plan charges ranging from $525 million to $550 million. Thus far, we’ve realized $514 million of pre-tax restructuring and related charges. We expect to recognize any remaining charges related to this plan by the end of the first quarter of our fiscal year 2023.

Moving on, our fourth quarter operating income was $86 million. Excluding restructuring and impairment charges, adjusted operating income was $100 million. After-tax, we realized a net income of $110 million or $0.23 of diluted earnings per share during the quarter. Excluding restructuring charges, income related to our first year of the MyFitnessPal divestiture earn-out, and the non-cash amortization of debt discount on our senior convertible notes, our adjusted net income was $67 million or $0.14 of adjusted diluted earnings per share.

From a balance sheet perspective, inventory was down 9% to $811 million driven by continued improvements in our operating model and in-bound shipping delays due to COVID-related supply chain pressures.

Our cash and cash equivalents were $1.7 billion at the end of the quarter, and we had no borrowings under our $1.1 billion revolving credit facility.

Finally, following last year’s convertible bond exchanges, we are proud to share that our cash position less debt of $663 million nearly doubled to $1 billion by the end of the fourth quarter.

Looking forward, one last reminder about our fiscal reporting year change. Mechanically, the current period we’re in right now, January 1 through March 31 of 2022, will serve as a transition period until we begin our new fiscal year 2023 on April 1.

To revisit what we detailed last year, we believe this change, namely putting our two largest quarters in the middle of our new fiscal year, will provide us with greater visibility when providing our initial annual outlook. In this respect, by the time of our next call, which is expected in early May, we’ll have booked orders in hand for the majority of our fall/winter wholesale business.
Accordingly, we are not providing a financial outlook for fiscal 2023 on today’s call.

That said, let’s turn to our outlook for the current transition quarter. From a revenue perspective, we now expect our transition period to be up at a mid-single digit rate compared to the previous expectation of a low-single digit rate increase. This includes approximately 10 points of revenue headwinds related to reductions in our spring/summer 2022 wholesale order book from supply constraints associated with ongoing COVID-19 pandemic impacts.

Moving forward, we expect many of these headwinds to continue well into fiscal 2023 until longer than usual transit times, backlogs, and congestion find balance, associated freight and logistics costs normalize, and in-bound shipping delays subside. At this time, we do expect these uncertainties to cause material impacts and variability in our future results, and accordingly, we will remain cautious and agile as we operate our business into fiscal 2023.

That said, the proactive strategies we’re employing, greater operational agility and overall demand for the Under Armour brand, give us confidence in our ability to navigate this dynamic and challenging business environment effectively. And we believe these COVID-related supply chain pressures are just a temporary speed bump on our road to continued profitable growth over the long-term.

Turning to gross margin, we expect our transition quarter rate to be down approximately 200 basis points against our Q1 2021 adjusted gross margin, which includes approximately 240 basis points of negative impact from higher freight expenses related to ongoing COVID-19 supply chain challenges in addition to an unfavorable sales mix, partially offset by pricing benefits.

With that, we expect operating income to reach approximately $30 million to $35 million and diluted earnings per share to be approximately $0.02 to $0.03.

In closing, we’re proud of the record results we achieved in 2021 and the consistent progress we’ve made over the past couple of years. This gives us great confidence in our brand and business and our team’s ability to navigate this dynamic environment.

As we work through our transition quarter and head into fiscal 2023, we’re monitoring and tracking the dynamic supply chain and inflationary pressures, and we’ll be mindful of the uncertainty and volatility that comes along with it. These conditions demand that we maintain a high degree of agility, and I am confident we will.

With that, we’ll turn it back to the operator for your questions. Operator?
QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from Matthew Boss with JPMorgan.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Thanks, and congrats on a nice quarter.

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

Thank you.

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

Thank you, Matt.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

So, Patrik, can you talk to overall health of the athletic channel today? And on your mid-single digit top-line stub quarter outlook, I guess how best to think about the underlying demand for your brand in North America and international relative to that mid single as we consider the 10 point supply chain constraints that you cited on your reported numbers?

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

Yeah. Thank you, Matt. First of all, I believe that currently the inventory levels in the channel are probably the healthiest they've been in the last decade, let's say. And I think that sets us up for a good trajectory going forward.

So, a lot of what we're seeing right now, and Dave called it out in his script, right, I mean, we have about a 10 point headwind in this quarter alone, simply based on logistics, I would say, in transport, on in-bound, outbound and all that stuff. So, for us, we feel the brand is continuing its trajectory. We feel that our playbook is working. We see in our metrics in terms of both awareness, consideration, and engagement from the consumer that we continue to get stronger.

So, the extra marketing that we talked to all of you about in our last earnings call has really started to make the impact that we want to. So, feeling very good about athletic. Feeling very good about the Under Armour brand and the trajectory we're on right now, and we're looking forward to just navigating through this what we believe short-term speed bump.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Great. And then, Dave, while I know you're not providing explicit full year guidance at this time, given the multiple moving parts in the stub quarter, how best to think about this year's 9.3% operating margin as a base? Meaning,
is the expectation for continued gross margin expansion and SG&A leverage from this base multiyear as we think moving forward?

David E. Bergman  
**Chief Financial Officer, Under Armour, Inc.**

Yeah. It's a great question. Again, we're not at a point where we're going to give any real details on fiscal 2023, but we're excited about what we were able to deliver for 2021. And it's a lot of things coming together there from all the work that we've done, whether it'd be on the GTM and the operating model, the health with our major accounts, and then getting to a point now where we can really prioritize better and manage our cost structure and be much more nimble after the restructuring efforts that we've been driving through.

So, it does set us up well going forward. I will say that our continued goal is to invest in the brand for the longer term, but at the same time, we have to be able to continue to leverage our cost structure. And that is definitely one of our constant goals.

So as we move forward, we do see opportunities in gross margin. We also see opportunities in leveraging SG&A. But we are going to have some near-term pressures in the first half of fiscal 2023 because of the supply chain issues, whether it'd be on top line or whether it'd be on the freight costs as well. Again, we see that as temporary and we see that as dissipating a lot in the back half of fiscal 2023, but that is something that we are going to be navigating very nimbly.

Matthew R. Boss  
**Analyst, JPMorgan Securities LLC**

Great. Best of luck.

David E. Bergman  
**Chief Financial Officer, Under Armour, Inc.**

Thank you.

Patrik Frisk  
**President, Chief Executive Officer & Director, Under Armour, Inc.**

Thank you.

Operator: Our next question comes from Erinn Murphy with Piper Sandler.

Erinn E. Murphy  
**Analyst, Piper Sandler & Co.**

Great. Thank you. Good morning. I guess my question is around North America and the strength that you've been seeing in this market. How sustainable do you see this growth? I think it was up 8% on a two-year stack basis, and then particularly as we lap the stimulus comparisons from last year here in March and April.

And then, secondly, again, related to this marketplace, I think, Dave, you talked about seeing additional shelf space here in North America. Can you just expound upon a little bit of what you're seeing, what type of accounts are taking incremental space from you guys? Thank you.
Thank you, Erinn. Patrik here. I'll kick it off, and then I'll bounce it over to Dave when I've given some color. First of all, the health of our growth right now is dramatically different than where we were in 2018, 2019, right, in terms of the composition of the revenue, significantly less off-price sales, reduced discounting, markdowns and promotion in all of our channels, the type of inventory management that we have and, subsequently, much better turn in both our own as well as our wholesale partners.

And then, the fact that we have exited about 2,500 doors that we felt were undifferentiated and, and the fact that we're still growing despite of that just shows the type of trajectory that we're expecting going forward.

So, for me, at this point in time, we're continuing to earn back shelf space and we're able to now – through the work that we've done in our P&L, we're able to invest in the right way behind the brand, which also comes on back of much a better understanding of our return on marketing investment models that we're running.

And I don't know, Dave, do you want to add something to that?

Yeah, I mean, I think that it's important to note that the momentum in North America is definitely real. And if you think about the overdrive that we delivered in Q4, over 75% of that was driven by the North America business. So, it is definitely not a demand challenge as we think about this transition quarter or even going into the beginning of fiscal 2023, it is a supply challenge with the COVID impacts. And so that's a position that we're excited to be in and really challenge our supply chain team to be able to continue to deliver for us.

And just one more thing. We're not taking our foot off the gas as it relates to marketing here in the transition quarter either. We're going to continue to spend on the brand for future seasons.

Got it. And then just on the shelf space gains, just curious on what types of accounts or kind of where you're seeing that most.

Well, right now, we're not at a point where we're going to be giving kind of account level or distribution level input there. But appreciate the question.

Thank you.
Great. Thank you.

**Patrik Frisk**
President, Chief Executive Officer & Director, Under Armour, Inc.

Thank you.

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

**Simeon Siegel**
Analyst, BMO Capital Markets Corp.

Great. Thanks. Hey, guys. Good morning. Congrats on the ongoing results. The ongoing gross margin is great, it's really great to see. You mentioned the pricing. How was AUR? And then maybe just because you mentioned the SPORTSMASKs, are we apples-to-apples now, so anything to keep in mind there? And then just thoughts on how you're prioritizing inventory between DTC and wholesale given the constraints? Thanks.

**David E. Bergman**
Chief Financial Officer, Under Armour, Inc.

Yeah, a couple things there. Gross margin, definitely we're excited about the growth there as well. It is unfortunate the amount of freight costs that we're dealing with. The SPORTSMASK headwind has been real in the back half of 2021, and we expect that that's going to be continuing a little bit here through the transition period and a little bit into early 2023. But definitely starting to become a lower impact as we go forward and definitely normalize more by the back half of fiscal 2023.

And that does create a tiny bit of a gross margin headwind just from that aspect. But again, the biggest challenge we have on the gross margin side right now is the freight costs. If you think about in the stub period here, we actually would be going forward further year-over-year in the stub quarter in gross margin if it wasn't for these freight costs. So, I think that's definitely important to keep in mind.

**Simeon Siegel**
Analyst, BMO Capital Markets Corp.

Great. Thanks. And then because you mentioned it a few times, I mean, the cash generation has been great. So, you're growing cash, unlike your peers you're also growing your share counts. Any thoughts on the cash?

**David E. Bergman**
Chief Financial Officer, Under Armour, Inc.

Yeah, I mean, I think at this point, we continue to evaluate our options. We're very pleased with what we've been able to drive from a liquidity management, working capital management, and overall profitability here. So, we're staying focused on kind of navigating the current environment and therefore operating with agility. And so having that additional cash is helpful there.

We will be reinvesting some of that back into the business, whether it be through the DTC expansion, whether it be through some of our systems, a little bit with the headquarter consolidation work that we're going to be doing. We're also evaluating would we do a possible further debt buy-down. So that's a consideration as well. And then even a share buyback is a possible consideration also. But nothing finalized there, but we're definitely looking at opportunities. But pleased with the position that we currently have.
Great. Thanks, guys. Nice job, and best of luck for the rest of the year.

Thanks.

Thanks.

Our next question comes from Paul Lejuez with Citi.

Hey. Thanks, guys. I just want to understand the 10 point headwind that you’re seeing in the stub quarter a little bit better. Is that delayed product that’s still coming to you just late, or is that product that wholesale partners canceled because of the expected timing of when it would be received and that caused you to cancel orders? So just maybe to alleviate a product backup, I just want to understand that dynamic a little bit better.

And to what extent are you trying to get your wholesale partners to order early for fall just to maybe avoid some of these supply chain issues for the upcoming year? Thanks.

Yeah, I mean, a couple things. Relative to the 10 point headwind on the transition quarter, this is not really expected timing delays. This is actually us proactively understanding the capacity issues with our vendors and then working with them and also working with our customers to actually cancel purchase orders for production and also cancel sales orders with our customers ahead of time.

And we worked with our customers on that so that we all had the visibility and transparency together to be able to drive through those decisions. And we did prioritize those decisions to make sure that we were protecting premium DTC and also our top wholesale accounts. But we wanted to go about it that way because those pressures were real. If we didn’t approach it that way, then we would be having a lot of product coming in late. It would not be making it to the floors and our wholesalers would probably be frustrated with the late visibility to that and we would probably end up with some excess inventory.

So, to proactively avoid all of that, we actually got ahead of this a while back and canceled those orders. And that’s really what’s driving this headwind. And, again, we do think it’s temporary, and we expect it to continue into Q1, Q2 of 2023.
And to take the second half of that question, Paul, as it relates to deliveries in future seasons and order books, etc., we continue to work with our accounts and internally of course in our own channels to make sure that we're balancing the remainder of the first half as well as into the second half of 2022 here.

And where we see, to Dave's earlier point in the script, still some challenges, right, but we're ahead of it and we're really working through that right now. But it is about a balance because we need to not just look at North America, we need to look at it globally and we need to look at it across channels. And we're now battle-tested, if you like, in terms of having done this for many seasons now, and the relationship with our internal teams of course and our external partners and wholesaler are excellent right now. So, I'm sure we're going to get through it well.

Paul Lejuez  
*Analyst, Citigroup Global Markets, Inc.*

All right. Thanks. Good luck.

Patrik Frisk  
*President, Chief Executive Officer & Director, Under Armour, Inc.*

Thank you.

Operator: Our next question comes from John Kernan with Cowen.

John Kernan  
*Analyst, Cowen and Company*

Hey. Good morning, everybody, and congrats on a strong year.

Patrik Frisk  
*President, Chief Executive Officer & Director, Under Armour, Inc.*

Thanks, John.

David E. Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Thanks, John.

John Kernan  
*Analyst, Cowen and Company*

Dave, as you look out into beyond spring/summer, what's the duration of these freight costs and supply chain costs into the back half of your next fiscal year? Obviously, we all see the impacts in the first half. I'm just curious, is this something that's going to have duration into the back half on freight costs and air freight and shipping? Curious just your thoughts, how we should think about gross margin beyond just Q1.

David E. Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Yeah, I mean, again, we're not going to give a ton of detail yet on fiscal 2023, but what I would say is we are anticipating that we will continue to use and need heavier air freight in this transition quarter and also in the first two quarters of fiscal 2023.
We do not anticipate to have to use a lot of air freight in the back half of fiscal 2023. So, we believe that air freight costs could actually become a tailwind for us in the back half of fiscal 2023, whereas it would continue to probably be a headwind for us in the front half of fiscal 2023.

And then relative to ocean freight rates, that's also been a developing cost increase as well. That one is probably going to take a little bit longer to subside, so we're continuing to monitor that and work through it. But that's kind of what we're seeing at this point.

John Kernan  
Analyst, Cowen and Company

Got it. That's helpful. And then just one follow-up. Asia Pac was – has been a bright spot for you, particularly versus some of the results your peers are reporting. Maybe a little bit more challenging in the fourth quarter, but if you look at it, it represents almost half of your total sales growth off the 2019 base to the end of 2021. So, just curious what are you seeing in Asia, how are you navigating China, and any structural changes to how you engage with Chinese consumers on the ground there? Thank you.

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

Yeah. Hi, John. Yeah, for sure APAC is still probably I would say most affected at this point in terms of traffic patterns due to COVID especially in China. And that's certainly something that's affecting the marketplace there.

But also, I would say some of the supply chain things we're dealing with are not isolated to just [ph] the west (00:40:14). I think that's also having an impact in China.

But as it relates to Under Armour, we have an advantage in China to some degree, right? It's a smaller part of our business overall than some of our competition, and we continue to really be focused on our strategy there, staying premium, continuing to invest in the digital innovation, and this entire end-to-end consumer engagement platform. And we're also continuing to build out stores but we're very, very cautious about how we do that of course in this current environment.

And so, we're feeling good about what we're doing over there, and again, we mentioned it in the script, we think it is shorter-term in nature and very pleased with the progress we continue to make despite of these headwinds.

John Kernan  
Analyst, Cowen and Company

That's great. Best of luck, guys. Thanks.

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

Thank you.

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

Thanks.

Operator: Our next question comes from Sam Poser with Williams Trading.
Good morning. Thank you for taking my questions.

Good morning, Sam.

Good morning. One, I just – just some housekeeping. I wonder if you could break out the marketing expense and the other expense for the quarter? And then I was also wondering how much of your inventory is in transit right now? And I just noticed it when I went by it. What's the status on 58th and Fifth Avenue, because last I was in the city, I saw that you – the store was wrapped with Under Armour.

Yeah, I guess a couple things there. From an SG&A perspective in Q4, our global marketing spend was in the neighborhood of $200 million, maybe a little bit more. So definitely one of the highest percentage marketing to revenue quarters that we've had, and we did that on purpose to really invest in the brand as we go into next year. And then also we're going to continue to invest pretty heavy here in the transition quarter as well to really keep the gas on as we step into fiscal 2023.

Relative to inventory in transit, I don't have that exact number handy. But I think that our inventory management continues to be a huge focus for us. I think we're very proactive in how we handled the supply constraint situation. So, we'll have some ups and downs in inventory, but we're going to continue to manage it tightly and continue to protect the working capital and cash conversion cycle that we've driven to this year which is something that we're really proud of.

And then last on Fifth Avenue, we're continuing to market the space. It's not exactly a great market right now. But that's okay. We're continuing to work through it, and we've planned for that.

Thank you. If I can just one quick follow-up. It sounds to me like you're sort of getting ahead of a lot of things in the transition quarter. Would that – I know you're not guiding, but would that mean that, as a percent at least in the third quarter of fiscal 2023, that you would begin to potentially see some leverage in the marketing?

Well, I would say that, again, we're at a point now where we feel like we are going to manage SG&A relative to what revenue and gross margin are doing. We have that ability now. So, we're to stay agile yet balanced while making appropriate brand investments to continue to fuel the growth. But as I mentioned earlier, cost structure leverage is a constant goal. And that comes with marketing as well. I think, it's an area that we're always going to try and protect more than other areas, but we need to continue to leverage our cost structure and continue to grow profitability and bottom line as well.
Sam Poser  
Analyst, Williams Trading LLC

Thank you very much. Continued success.

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

Thanks, Sam.

Operator: Our next question comes from Kate Fitzsimons with Wells Fargo.

Kate Fitzsimons  
Analyst, Wells Fargo Securities LLC

Yes, hi. Good morning. Thanks for taking my question. I guess not to beat a dead horse, but just when looking out on the stub quarter, Dave, you had alluded to 240 basis points of freight pressures. Should we think about that being the height of the freight pressures maybe relative to what you're expecting in the first half of F2023?

And Patrik, you alluded to several times in your prepared comments just about greater consideration and awareness that the brand has made. I'm curious if you can just speak more directly to strides you've made in some of the growth categories, especially Women's and Footwear, coming off of calendar 2021. Thanks so much.

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

Yeah, I would say that as we think about Q1 and Q2 of fiscal 2023, those freight impacts are going to be pretty sizable. I don't know that we're ready to give detail on whether it's going to be a little bit larger or a little bit smaller than what we saw in – or what we're expecting in the transition quarter, but it will be significant, and it is something that's going to impact our gross margin in the first half of the year.

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

Yeah. And, Kate, as it relates to our metrics, our KPIs, we've talked a lot today about – and I did in my prepared remarks as well, around how we're going to continue to spend. And how we're spending is really more in top of funnel. That was something we weren't able to necessarily afford to do in years past as much as we're doing now, and that's what we're going to continue to do.

And the idea there is really to increase both awareness and attraction and then, ultimately, further down in the funnel, consideration for the brand. And what we're seeing right now is – and this is across the world, by the way. This is not just North America. We're seeing strong momentum in all of those metrics compared to where we were just a few years ago. So, we're very excited about that.

And that's also why Dave and I feel so confident in continuing to spend here in the stub quarter. The leverage that we're getting out of our ROMI metrics, while we're continuing to get better at connecting and engaging consumers in their decision journey, gives us confidence that this is the right decisions to do at this point in time.

So, very excited about where we are and what that means for the brand going forward. And just to add a little color on that, too, our current campaign, The Only Way Is Through, just kicked off here a few weeks ago with the theme of what we call the Gift of the Game, which is already showing really good results for us as well.
Kate Fitzsimons  
Analyst, Wells Fargo Securities LLC  

Great. Thanks. Best of luck.

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

Thank you very much.

Operator: Our next question comes from Jonathan Komp with Baird.

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

Yeah. Hi. Thank you. Just to follow up on the 10 point headwind that you mentioned since it sounds like it's very intentional in terms of your actions that are driving that. Do you care to comment just on how that magnitude of the drag looks over the next few quarters? And then, just on pricing, could you comment on your plans for the year and if the stub quarter here fully reflects your planned pricing or if there's additional actions to roll through yet?

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

Jonathan, this is Dave. We're not going to be giving exact numbers here yet for fiscal 2023, but I would say that from the proactive work we've done, the supply chain constraints and, therefore, impacts to our top line for fiscal 2023 Q1, Q2, they're not going to be that significantly different than what we're seeing here in transition quarter. At least, that's our current visibility. Again, we'll give a lot more color on that in the early May call. But that's kind of what we're seeing at this point. And then, definitely not seeing that type of an impact for Q3 and Q4 fiscal 2023.

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

And Jonathan, Patrik here. As it relates to pricing, we have most of our benefit right now in terms of our gross to net in the stub quarter and coming out of 2021. But we will be raising some prices here in 2022, and it's really about a continuation of our pricing strategy. As the brand gets stronger, as the market continues to evolve and the conditions evolve, we're definitely looking at opportunistically raising prices where we can, but it's going to be more surgical in nature versus kind of an across-the-board approach.

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

Okay. That's helpful. And then, just one broader question on the margin outlook. Given everything you've seen today about the performance last year and then the current headwinds, anything that's changed in terms of the timeline to get back to low-double digit operating margin? Anything that's changed in your view?

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

Look, I think over time, our goals and our strategy are still solid, and we've made a lot of progress in 2021. And as we navigate through kind of these — the short-term impacts here with supply chain through the first half of 2023, we believe we're going to be well on the road towards that trajectory.
So, again, we'll give more details in the early May call, but we've got the momentum, we've got the control over our cost structure, we've got great relationships with our accounts, and so as soon as we can get past these logistical challenges, we're ready to run.

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

Great. Thanks again.

David E. Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Thanks.

**Operator:** Our next question comes from Kimberly Greenberger with Morgan Stanley.

Kimberly Conroy Greenberger  
*Analyst, Morgan Stanley & Co. LLC*

Okay. Great. Thank you so much. Nice recap on a great year, Patrik. I wanted to ask about the sort of unmet demand that you've got here both in the transition quarter and in the first half of the upcoming fiscal year. In your mind, does that represent sort of organic demand for the brand that you think you might be able to capture in maybe calendar year 2023 and beyond? Is that how you would characterize it, or do you think this is more, you know, if you can't meet the demand today, it's possible that it goes away?

Patrik Frisk  
*President, Chief Executive Officer & Director, Under Armour, Inc.*

No, I – this – what we're – according to how we see things, and Kimberly, what Dave said before is very true. This is real demand that's out there, so – for the brand, and it's quality demand. We don't believe that because we are not able to meet that demand right now, because of these proactive decisions that we're going to be somehow disadvantaged going forward. We believe that the inventory levels now in general as I've said earlier here today are healthier than they have ever been in this sector, in our sector, perhaps the best they've been for decades.

So, we believe that as we continue to now also spend on the brand, as we have now pruned our distribution to be in the right places, as we continue to win shelf space back and be more specific and focused around what we're doing, we're going to continue to grow this brand going forward. Again, we believe this is very short-term. We believe it's a speed bump. The communication and engagement we're driving with the consumer is still there. So, once things start to unlock, we believe we're going to be able to unlock the sales again.

Kimberly Conroy Greenberger  
*Analyst, Morgan Stanley & Co. LLC*

Fantastic. And looking at that inventory that you mentioned, Patrik, inventory coming out of 2021 is down 9% compared to 2019, but revenue is up 6%, so you've got a nice 15-point differential there. The channel inventory is clearly very, very lean. How are you feeling about your own inventory levels? I'm wondering if maybe you wish you had a little more? It sounds like you'd have an even more robust revenue outlook if you had a bit more. And how should we think about the way that you would be planning inventory over the next one to two years if this level is maybe just a little bit too lean?
Yeah, good questions. Dave, if you kick it off with some of the numbers, I'll take some of the inventory at the end.

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

Yeah, I mean, I think, again, we're very comfortable with the mix of inventory with demand kind of versus excess and our ability to utilize the off-price channel and our own Factory Houses to work while keeping that third party off-price really low. And the inventory that we're running now, yes, it's very well managed, we're excited about where we were able to end the year, but we're not at a point where we feel like we're leaving sales off the table. We've had to cancel a lot of purchase orders, which we mentioned because of the supply chain constraints. But outside of that, we feel like the operating model is working.

And therefore, as we get past kind of these speed bumps with the supply chain challenges, we believe that we're going to be able to continue to grow that top line and continue to manage inventory tightly. And we're excited about being able to do that and what it means for continued free cash flow going forward.

Kimberly Conroy Greenberger  
Analyst, Morgan Stanley & Co. LLC

Great. So, it's more about getting back to that smooth flow of inventory rather than carrying a higher level of inventory. Am I hearing you right on that?

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

Yeah, I think for us, it's all about balance, right, and we're certainly going to make sure that we're not missing opportunities in terms of driving revenue where there's opportunity. But it's also about making sure that we continue to become more efficient in where and how we place inventory.

And one of the great things about the work we've done through our transformation is an ability to actually do just that, right. And in terms of working closely with both our wholesale partners, our internal teams, as well as our vendors to really demand plan better. We've built out a demand planning function that works incredibly well with our supply planning function, and we're getting better and better at predicting where demand is going to happen. And that is a skill. It takes time to build out. You need the systems and you need the people and you need the expertise, and Under Armour is at that stage now.

Kimberly Conroy Greenberger  
Analyst, Morgan Stanley & Co. LLC

Sounds great. Thank you so much.

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

Thank you.

Operator: Our last question will come from Michael Binetti with Credit Suisse.
Michael Binetti  
*Analyst, Credit Suisse Securities (USA) LLC*

Oh, hey, guys. Thanks for taking our question at the end here. Nice quarter. I just wanted to clarify one of the questions asked earlier and maybe, Dave, you – we can think alongside you. Last quarter I think you spoke to spring/summer order book reductions on the third quarter call. Is that 10 points that you pointed to today higher or lower than you expected at that point?

And then on the SG&A, if we just look at what's implied for the stub quarter here, it's a bit higher than – you know, as a percent of revenues that we see usually in the March quarter pre-COVID. I know, you've done a lot of work to take out fixed costs. And again, I know, we're not going to get into anything specific for 2023, but maybe can you just help us think in the medium term how the SG&A leverage profile works? I know you've said a few times you're going to keep the foot on the gas on the marketing in the first quarter. But maybe just some higher-level SG&A thoughts as we roll into fiscal 2023.

David E. Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Sure. So, Michael, first on the spring/summer 2022, three months back, we were signaling that we were going to have that headwind pressure and the amount of that pressure actually is pretty close to what we anticipated three months back. So, we called the ball pretty well relative to that as far as the proactive management with our vendors and our accounts.

Relative to SG&A, Q4 was a pretty big quarter for us in 2021 just with the magnitude of that marketing expense being in that $200 million range plus increased incentive compensation that comes along with the performance of this in 2021. But we also, and we talked about this before, did some minimum wage increases relative to our retail stores in North America and also our distribution centers. So, all those investments came through Q4 2021, and they were partially offset by the continued cost efficiencies across the enterprise from all the restructuring work and the operating model evolution.

When you think about the stub quarter here that we're currently in, it's still a pretty heavy SG&A quarter, and that's on purpose. It's really driven by increased marketing investments that we are strategically making and that we want to stay on the gas and fuel the brand to really roll into fiscal 2023 in the right place from a brand perspective, and then also does have the continued increase in the non-salaried wages that I just mentioned.

So, as we think about fiscal 2023, again, I'll just keep reiterating that we want to continue to find ways to leverage our new kind of rebased cost structure, while protecting the key investments. And the balance around that we'll be ready to talk about in the early May call.

Michael Binetti  
*Analyst, Credit Suisse Securities (USA) LLC*

Okay. Thanks.

David E. Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Okay.
Michael Binetti  
*Analyst, Credit Suisse Securities (USA) LLC*

That will help out.

David E. Bergman  
*Chief Financial Officer, Under Armour, Inc.*

Thanks, Michael.

Operator: That concludes today's question-and-answer session. Thank you for participating. You may now disconnect.