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Under Armour, Inc. (UA)

Q1 2024 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day and thank you for standing by. Welcome to Under Armour's Q1 2024 Earnings Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions] Please be advised that today's call is being recorded.

I will now turn the call over to Lance Allega, Senior Vice President of Investor Relations and Corporate Development. Please go ahead.

Lance Allega

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

Thank you. Good morning, and welcome to Under Armour's first quarter of fiscal 2024 earnings conference call. Today's event is being recorded for replay.

Joining us on today's call will be Under Armour President and CEO, Stephanie Linnartz; and CFO, Dave Bergman.

Our remarks today will include certain forward-looking statements that reflect Under Armour management's current view of our business as of August 8, 2023. These statements may include projections for our business at 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 today.

Statements made are subject to risks and other uncertainties detailed in the select press release and in documents filed regularly filed 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 appropriate 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'll turn the call over to Stephanie.

Stephanie C. Linnartz

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

Thank you, Lance, and welcome to everyone joining today's call. Having finished my first full quarter at Under Armour, I am pleased that our results were broadly in line with our expectations and that we are on track to deliver our fiscal 2024 outlook.

Digging further into the business and gaining a better understanding of our strengths, strategies, and opportunities for improvement, I am even more inspired about the power of the Under Armour brand and our ability to unlock our full potential over the long-term.

During the quarter, I met with athletes, customers, and teammates across the US, Italy, France, Spain, Turkey, the Netherlands, and the UK, and I have seen first-hand the enthusiasm and passion for our brand and products. From athletes that thank us for helping them push the boundaries of what is possible in the field of sports to our retail partners who are energized for what's to come, our mission to make you better is front and center.

On our last earnings call, I laid out our Protect This House 3, or PTH3, strategy which is centered on delivering three significant initiatives over the next three years: first is driving global brand heat with an emphasis on the US; second is delivering elevated design and products with a focus on footwear, Sportstyle, and women; and third is driving US sales while harnessing momentum in our international business.

Although these initiatives will take time to gain traction, with one quarter behind us, I am pleased by the team's increased execution, accountability, and unification around these pillars. Using fiscal 2024 as a building year to focus on cost management and profitability, we are making progress across each of the PTH3 priorities, so I'd like to spend a few minutes reviewing some highlights.

We'll start with driving global brand heat. Crucial to this execution is strong leadership to strike an appropriate balance between top-line growth, improving our strategic capabilities, and maintaining cost discipline to ensure we generate the highest returns possible as we grow the Under Armour brand.

In this respect, we're happy to have recently welcomed two new additions to our executive team. First is our Chief Consumer Officer, Jim Dausch, whom I had the pleasure of working with for over 20 years at Marriott International. Jim is a seasoned executive with experienced leading transformational strategic initiatives across product, marketing, and sales and driving significant brand and consumer loyalty improvement. As a crucial operator in our effort to drive global brand heat, he's hit the ground running, and I'm looking forward to the horsepower that I know he can add to our team.

Second, we welcomed Amanda Miller as Under Armour's Chief Communications Officer. With over 20 years of experience, Amanda joins us from PayPal where she served as VP of Corporate Affairs leading the company's multi-tiered global communications strategy. In conjunction with Jim's role and linking all of our commercial elements together, evolving how we tell our brand and product story to our athletes, consumers, the media, and other stakeholders will be critical to driving global brand heat.

Welcome Jim and Amanda. You have a fantastic team at Under Armour to lean on, and we're excited about the journey ahead.

Last month, we also announced that Lisa Collier and Colin Browne are leaving Under Armour to pursue other opportunities. Accordingly, comprehensive searches for a new Chief Product Officer and a new Chief Supply Chain Officer are underway. I want to thank Lisa and Colin for their contributions and leadership throughout their time at Under Armour.

Switching gears to marketing, we saw positive results with the return of Protect This House earlier this year and continued to build on this momentum with recent activations around the Women's World Cup. The campaign has a digital emphasis and showcases two of Under Armour's top female footballers, Kelley O'Hara from the US, and Alex Greenwood for England.

Paying respect to music's massive impact on sports, culture and the athlete's mindset, their stories and motivations come together to Armour Up, with a common goal to Protect This House. Working in parallel is our premium Women's Magnetico Elite 3 Soccer boot. Under Armour's first cleat made with a specific clasp for a women's foot, an outstanding example of our commitment to serving female athletes from the world's most elite football stage to the local pitch.

Further showcasing our female athletes, Under Armour held a series of events coinciding with the WNBA All-Star Weekend in July, including our newest basketball athlete, Diamond Miller, along with Kelsey Plum of the Las Vegas Aces who hosted a youth basketball camp powered by UA Next, Under Armour's youth-focused sports development camps. We also debuted Kelsey's new Earth Wind and Fire UA Flow Breakthru 4 sneaker at the Las Vegas Brand House.

UA Next continues to be an excellent connection vehicle with the 16 to 24-year-old varsity athletes. In fact, we wrapped up its 8th iteration in June, The Future 50, where 50 of the best high school American football juniors and seniors gathered for an intense two-day experience. This included training, practice, competition and mental exercises along with engagements with Justin Jefferson of the Vikings and Kyle Hamilton of the Ravens.

And speaking of football, we also recently announced that we have extended our long-term relationship with Notre Dame, which is a tremendous point of pride for Under Armour. In the decade ahead, we look forward to supporting the next generation of athletes as we co-create customized Fighting Irish uniforms, footwear and apparel for the university's 26 varsity teams.

An essential theme that underlines support of these brand heat moments is the importance of social media and an always-on digital presence to connect with young athletes more deeply. I am encouraged by the progress we're making here with the considerable evolution in our overall social media approach which has led to increasingly positive results over the past six to eight months.

We've also been refining the content on our category-specific social handles, allowing us to target athlete groups better and increasing efforts to directly connect product marketing and technical attributes to their everyday moments.

I am also pleased that we continue to improve the shopping experience for Under Armour products featured in posts on Instagram and TikTok and working towards direct purchase and checkout on their platforms, another step in enhancing our omni-channel capabilities.

Of course, driving brand heat must coincide with having innovative and stylish gear that athlete's desire, which brings me to our second priority of delivering elevated design and products, focusing on footwear, Sportstyle and women.

Over the past three months, we've begun to simplify our product lines around fewer collection groups to optimize our ability to engage and convert consumers as we continue to scale our brand. To enable this, we plan to distort investments towards a strategic handful of specific apparel and footwear collections that we will activate through improved inspirational storytelling to drive more consistent demand for key franchises.

Following the few quarters of pressure in our apparel business, our first quarter performance saw an impact from the persistent promotional environment in the challenging North American retail environment. To combat this, using our key franchise approach, we're launching a substantial update to our original HeatGear Compression base layer T-shirt this fall.

Featured on the field of play when two UA teams, Notre Dame and Navy, face off during college football's opening weekend in Dublin, Ireland, on August 26, there is no better demonstration of the power that our innovation brings to sport.

This fall, we are also introducing an elevated Meridian legging collection with improved materials in our stores and DICK's Sporting Goods new House of Sport concept, so the next round of evolution for one of our best loved women's products. Both HeatGear and Meridian will be priced to attack better and best level products, helping to advance one of our broader goals, which is to drive higher ASPs to leverage gross margin and P&L productivity better. There is certainly much work to be done and it will take a few seasons to get to where we want to be, but meanwhile, this team is not standing still.

In our Footwear business, we continue building momentum with our versatile UA SlipSpeed platform. Following the initial training shoe launch in February, we recently dropped SlipSpeed Mesh, a highly breathable version for your toughest summer workouts. As one of our highest-rated sneakers, SlipSpeed features a unique lightweight upper with an Iso-Chill padded interior, BOA lacing system and Flow cushioning along with a quick flip heel that puts you right into recovery mode.

This fall, we have two launches to look forward to: a SlipSpeed collection in collaboration with Justin Jefferson and then, on Halloween, we'll do a limited launch of our new UA SlipSpeed Running shoe with a Valentine's Day 2024 launch which mirrors last year's SlipSpeed rollout.

From the next chapter of SlipSpeed to the next chapter of our best-in-class basketball shoes, the launch of Curry 11 is also expected in October. With a new futuristic design language that translates to an elevated aesthetic and vibrant color palette, this is the first time you'll see Dual Density UA Flow cushioning for even more comfort and traction along with an improved upper chassis for better step-in comfort. Hands down, [ph] via 11 (00:12:06) is the most innovative standout shoe thus far in the Curry portfolio. And we are so excited to get it to market.

In addition, we are continuing to amplify the Curry brand platform more meaningfully with new footwear, apparel and accessories across basketball, golf and Sportstyle in the works. This expansion will also unlock new distribution opportunities at our existing retail partners and provide better consideration into places we're not well represented. Activating this part of Under Armour's business is a key unlock to driving future growth.

Another apparel example is in our Sportstyle business, where, this fall, we are elevating our fleece offerings with premium products that amplify style and performance. Our Unstoppable and Essential fleece warmups aren't just about being comfy before the big game, though it's easily the plushest fleece you've ever felt. It's about lightweight world-class temperature management that performs above your expectations. These products will be highlighted on Justin Jefferson in North America's upcoming back-to-school Protect This House campaign and will be available in our direct-to-consumer channels and premium wholesale locations.

This brings me to our third strategic priority which is to drive US sales. Over the long run, we are confident that driving brand heat and delivering better design and products will reinvigorate growth in our home market. Athletes are at the center of everything we do and they are asking for better access to Under Armour products wherever and whenever they shop.

That said, we're focused on determining where the best expansion opportunities exist across our wholesale and direct-to-consumer channels, while at the same time assessing ways to optimize SKU productivity with improved segmentation to drive meaningful ASP expansion as we grow our better-level products.

Despite a tempered US wholesale environment, we are focused on strengthening our retail partner relationships across our sports specialty business and being deliberate in the opportunities we pursue across malls and department stores. As we work into spring/summer 2024, we have plans to open new store doors across these channels, so much of that work in relationship building is underway.

Back to our PTH3 strategy, when we execute well on the first two priorities of driving global brand heat and delivering better products, we expect to enable growth in our US business.

Shifting to our direct-to-consumer business, we're happy to report that we launched our US loyalty program, UA Rewards on July 31. Early points on the board that draws from our experience driving higher revenue per customer, repeat business, and creates direct channel engagement and brand love and loyalty. This diverse program extends our brand experience, providing consumers with early access to product drops, wellness content, and athlete experiences, including one lucky sweepstake winner who will meet Stephen Curry this month in Baltimore.

Initially launched on our digital platforms, we expect to roll this out more broadly into our retail stores this fall. This is a fantastic step forward for us, and I am confident UA Rewards will be an excellent asset in deepening connection with athletes and inspiring better sales conversion as we scale the program.

As our most profitable region, we have to win in our home market of North America. Growing faster here means more future dollars to invest in products, marketing, and our international business as well as increasing returns to shareholders.

Now, to be sure, we're not taking our eyes off our international business and are encouraged by the positive momentum we continue to see in the EMEA and Asia Pacific businesses, which each saw double-digit revenue growth during the first quarter, so balance is key in the near-term as we set up for the long-term.

In closing, we're making initial progress on our PTH3 priorities and I'm encouraged by the team's efforts in these early days. From leadership changes and amplifying our storytelling to driving global brand heat and optimizing our product engine to deliver groundbreaking innovations that athletes covet, I am confident that we will continue to methodically place ourselves into a stronger position to achieve the improved growth and profitability that I know Under Armour is capable of.

Now, I will hand the call over to Dave to go into more detail about our first quarter results.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

Thanks, Stephanie. With that, let's review the results for our first quarter of fiscal 2024 which ended June 30.

Our first quarter revenue was down 2% to $1.3 billion, which was in line with our outlook. Excluding the negative impact of foreign currency due to the strength of the US dollar, revenue was down 1%.

Looking down into our regions, revenue in North America was down 9%, which was roughly in line with our expectations and a result of challenges in the US wholesale channel due to elevated sector-wide inventories and ongoing promotional activities, a factor we expect will ease as the year progresses. As a result, the first quarter should be the largest decline in North America this year.

Revenue in EMEA grew 10% during the quarter with a solid performance in our wholesale business and strong growth in our DTC business. Currency neutral growth in EMEA was 11%.

Our Asia-Pacific business was up 14% during the quarter, a 21% increase on a currency-neutral basis fueled by steady improvements in retail traffic and post-COVID normalization. Like EMEA, we also saw solid performance in our wholesale business and strength in our DTC business.

And rounding it out, due to favorable wholesale and DTC channel results, Latin America revenue was up 13%, or up 5% on a currency-neutral basis during the quarter.

On a global basis, by channel, wholesale revenue was down 6% to $742 million. Increases in our distributor and off-price businesses were more than offset by lower sales to the full price channel amid US wholesale challenges.

Direct-to-consumer revenue increased 4% to $544 million driven by solid performances in our eCommerce and retail channels. Licensing revenue was down 11% in the quarter to $25 million driven by softness in our Japanese licensee and North American business.

By product type, apparel revenue was down 5% driven primarily by softer sales in our training business due to the ongoing pressure in the North American wholesale environment we spoke to earlier. Footwear was up 5% driven primarily by strength in our run business and revenue in accessories was up 1%.

Our first quarter gross margin declined 60 basis points year-over-year to 46.1%. This was driven by 300 basis points related primarily to higher promotional activity within our DTC business as we managed through prior season products, as well as unfavorable pricing related to sales to the off-price channel, 70 basis points of negative impacts from changes in foreign currency, and a combined 30 basis points from less favorable product and regional mix. These headwinds were partially offset by 320 basis points of supply chain benefits related to inbound ocean and air freight tailwinds and 20 basis points from a more favorable channel mix.

Moving further down the P&L, in the first quarter, SG&A expenses were down 1% to $587 million. Operating income was $21 million in the quarter, and after-tax, we realized a net income of $9 million, or $0.02 of diluted earnings per share.

Next, our two first quarter balance sheet call-outs, starting with inventory, which was up 38% to $1.3 billion. This was in line with our outlook. And as a reminder, we ran leaner inventory levels through the summer of 2022 due to our constraint model and proactive cancelations of orders due to COVID-related supply challenges, so this comp is elevated accordingly.

Finally, our quarter-end cash and cash equivalents were $704 million, and we had no borrowings under our $1.1 billion revolving credit facility.

Now, let's turn to our fiscal 2024 outlook, which remains fundamentally unchanged from the outlook we provided on May 9. But to reiterate, there is no change to our expectation that revenue should be flat to up slightly versus fiscal 2023. However, we do see the regional color shaping up a little differently, with North America expected to be down 3% to 4% given the challenging environment we spoke to earlier and our international business to be up at a low double-digit rate, as momentum continues in EMEA and APAC.

Next, there is no change to our gross margin outlook, which is an expected 25 basis points to 75 basis point improvement from last year's rate of 44.9%. And we also continue to expect SG&A to be flat to up slightly, operating income to reach $310 million to $330 million, and diluted earnings per share of $0.47 to $0.51.

Next, I'd like to give some color on our second quarter and the second half of fiscal 2024. We expect second quarter revenue to be flat to down slightly versus the prior year, including a low single-digit decline in our North American business partially offset by mid-single-digit growth in our international business. In addition, we expect the year's highest revenue growth rate to be in our fourth quarter.

Next, we expect gross margin to be up approximately 100 basis points to 150 basis points in the second quarter due to tailwinds from lower freight costs partially offset by persistent promotional activity. We expect the third quarter to have the year's smallest quarterly gross margin improvement due to anticipated actions to manage our inventory down further, all of which gets us to an expected second quarter operating income of $115 million to $135 million, which translates to $0.18 to $0.21 of diluted earnings per share.

And finally, in line with our previous outlook, we expect inventory to be up at a mid-to-high single-digit percentage rate at the end of our second quarter before declining in the third quarter and being down at a mid-teen percentage rate to end fiscal 2024 at approximately $1 billion.

To wrap up today's prepared remarks and underscore the confidence we have in our strategy and our improving ability to execute against our PTH3 initiatives which are engineered to drive revenue growth over the long-term. In the near-term, we are identifying additional areas of COGS improvement such as supply chain efficiencies, SKU rationalization, and improved segmentation opportunities to drive ASP expansion.

We are also continuing to prioritize investments, particularly around our demand free agent efforts to ensure that when we do choose to invest we're providing the highest possible returns to our top-line. And we are managing costs more aggressively to set us up for an even more productive P&L once revenue begins to inflect more significantly in the future.

This balance of bottom-line profitability in the near-term with top-line productivity and improved profitability in the long-term is what we are relentlessly focused on driving with a sense of urgency.

With our first quarter in the books, the changes we are implementing in our execution against our PTH3 strategy give me confidence that we are on the right path to creating improved value for our shareholders over the long-term.

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

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Our first question comes from Simeon Siegel of BMO. Your line is open.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Great. Thanks, everyone. Good morning. Hope you're having a nice summer. Stephanie, I know it still might be early, but would love to just get your broader thoughts on the wholesale environment in North America. Maybe just your thoughts on looking further out, the need for promos versus as inventory gets cleaner. That's both for you and also the competitive landscape.

And then, Dave, any way to quantifying the puts and takes you just mentioned for the second quarter gross margin but also how it flows through into the full year? Thank you.

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

A

Sure. Well, good morning, Simeon, and happy summer to you as well. As it relates to the wholesale environment, as we mentioned in our prepared remarks, it is – there's a couple of things going on. There's still inflated levels of inventory that are leading to more promotional activity. But as we see the year going on and as we head into next year, anticipate that things will get better and there will be less need for so much promotional activity.

I think from a bigger perspective, though, and much longer term, we're very confident that our Protect This House 3 pillars which are again driving global brand heat with a focus on the US, delivering elevated design and product with a focus on footwear, Sportstyle, women, and then really driving US sales while leveraging our international momentum, this is all going to come together to much better business, more business with our wholesale partners, and also going to allow us to expand our distribution.

As we focus on better product, we're going to be more disciplined about segmentation. We're going to open new doors, new partners, including in the wholesale arena. So we're excited about the long-term strategy and where we're headed with our partners.

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

A

And relative to inventory and gross margin, I mean, first of all, I just would kind of remind us that our inventory is in a very healthy position. We don't have a lot of older products that's making up our inventory, and we are normalizing against leaner days last year. So, I think we're balancing the promotions and the need to move some of our inventory very well. And also kind of keeping that third party off-price liquidation channel in that 3% to 4% range of revenue which we feel is a reasonable level.

And kind of how that translates to your point to Q2 and back half gross margin, in Q2, we see the 100 to 150 basis point expansion and it's really just the two things mainly. The lowering freight costs we continue to see and then partially offset by the promotional environment continuing to be a little bit pressured. There's other smaller puts and takes for Q2, but those are the big ones.

And then when you think about kind of the back half of the year, again, some of the similar puts and takes, but I think in the third quarter we called this out as being one of the smaller year-over-year gross margin improvement quarters, and that's really just because from a timing perspective, we're planning to do a little bit more with the third-party off-channel in that quarter versus the prior year third quarter for us.

And then also, we're still being a little cautious in how we plan holiday in fiscal Q3 or calendar Q4 for us. So you see some of that coming into play as well. And then you would see better improvement year-over-year in Q4 because we get past that quarter but then also a lot of the different costing initiatives we've been working on with our vendor base, they start to come into play more in Q4 and then further as we go into next year.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Great. That's really helpful. Just a quick follow-up on – to your point about the inventory health. Did you say what percent is pack and hold this quarter? Thanks.

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

A

I mean, generally speaking, we've been starting to work that down. Probably about I would say one-third of the increase in inventory year-over-year is due to pack and hold. And then we'll continue to work that down as we use that through some of our outlet stores, but also some of our in line accounts because there's a fair amount of that that is core product that is more season less in nature.

Simeon Siegel
Analyst, BMO Capital Markets Corp.

Q

Great. Thanks a lot, guys. Best of luck for 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. One moment, please. Our next question comes from the line of Jay Sole of UBS. Your line is open.

Jay Sole
Analyst, UBS Securities LLC

Q

Great. Thank you so much. I just want to follow up on the last question a little bit, first. Can you just talk about how your order book in the US wholesale business firmed up as you went through the quarter and got those orders for the holiday season? Can you talk about how it trended versus your expectation? And then relative to maybe the mid-tier channel versus the more premium channel, how things developed there, that would be helpful? Thank you.

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

Yeah. As we embarked on this year, we knew coming in that there was going to be some pressure on the buys with some of the retail partners just because of the building inventory from a lot of the brands last year. And so we saw that coming through in the orders.

As we embarked on this year, I would say, though, that Q4 of this year – Q3, Q4, those orders and the visibility around that did come in slightly less than what we had expected, and that's partly what's going into kind of the revision we made within revenue. So, yes, we're definitely maintaining our revenue outlook and we feel very comfortable with that. But with that order visibility for kind of Q3, Q4 on the wholesale in North America, we are tempering that a tiny bit. You see that in our update. But international we're continuing to drive very well, and so that is coming up a tiny bit. But net-net, still back to the same answer on full net revenue for us for the year.

Jay Sole
Analyst, UBS Securities LLC
Q

Got it. And then maybe, Stephanie, just as you talk about the Protect This House 3 plan and driving global brand heat and really working on product. Over the last two months, as you've been getting more into the role, where did you see this sort of potential of Under Armour from a gross margin perspective as you connect the strategy to the financials into gross margin should be for the business? Thank you.

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

Yeah, I think we've got a lot of opportunity ahead. I think that there's both the Protect This House 3 pillars that I went through are really about driving growth and much of that this fiscal year 2024 is a building year [indiscernible] (00:32:29) I think the growth really begin in 2025 and beyond – fiscal year 2025 and beyond.

But in the short- to medium-term we really are focused on driving profitability. I mentioned in my remarks that we're looking to drive higher ASPs. There's a lot of work being done on SKU productivity. Cost of goods sold improvement. We are looking to manage costs very aggressively so we can set the P&L up for more success in the years ahead. And there's really no reason over time that we can't get back to the high-40s. So when I look out in the future, that's what I see.

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

I'll probably just add a couple thoughts to that as well. A couple of things that will continue to be in play for us is overdriving on DTC growth versus wholesale, which from a mix helps the gross margin rate as we go into the next couple years. But then also, as we continue to grow and scale footwear, there's a little bit of pressure from that because our footwear gross margins are lower. But as we're growing faster there and building scale and getting smarter on how we approach our product, the gross margin is starting to improve within footwear. So that disparity is a little bit less. So it kind of starts to normalize there.

And one of the bigger things that we really jump back into is working hard with our vendors on the product costing side and really increasing the visibility of the build on those costs and comparison with different vendors. And that work has been underway and we do anticipate some of that benefit starting to come in to our fiscal Q4 of this year and then even more so as we get into full year for fiscal 2025.

Jay Sole
Analyst, UBS Securities LLC

Q

Got it. That's super helpful. Thank you so much.

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

A

You're welcome.

Operator: Thank you. One moment please. Our next question comes from the line of Bob Drbul of Guggenheim. Your line is open.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Hi. Good morning. Two questions that I have. The first one is around the pipeline, the product pipeline, Stephanie, can you just talk a lot around where you're focused on and sort of the improvements that you're making and the team that's in place to drive the new product development, new product pipeline since you joined?

And the second question is you talked about driving higher AURs – or ASPs, can you just talk how you think the brand is priced competitively versus your peer group and sort of where those opportunities might be? Thanks.

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

A

Sure. Absolutely. On the first part of your question as it relates to product, our focus is on building out more in the better and best part of the product pyramid. A big focus, as we've discussed, is around footwear, women and Sportstyle and that is just going to help build out those parts of the product pyramid, again, better and best. And we're excited. We're excited about the team that we have in place to be driving the innovation on the product side.

And as I mentioned, we have a search underway for a new Chief Product Officer. We're continuing to look at opportunity to bring in new talent. We've brought on some new designers to help us particularly on footwear and Sportstyle. So, again, it's really going to be about driving that better and best part of the product pyramid, which I think leads to the second part of your question, which is how we're going to drive higher ASPs?

I think we're going to drive higher ASPs by better product, more – very disciplined segmentation. We're going to continue to, on our digital sites, look at opportunities to reduce overall promotional activity. So, I think when you kind of put everything in the blender, better product, more disciplined segmentation, we're going to drive higher ASPs. And again, it doesn't take much, $5, $10, $15 per unit, to really drive some significant top line revenue and profitability for the company. So, we're very focused on that.

Robert Drbul
Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: Thank you. One moment, please. Our next question comes from the line of Laurent Vasilescu of BNP. Your line is open.

Xian Siew
Analyst, BNP Paribas Exane

Q

Hi. Thanks for the question. It's Xian Siew on for Laurent. Within the North America lowered outlook, it sounds like most of the change is on the wholesale side. Just maybe could you comment on the expectations for DTC? Has that changed at all or is that the same as 90 days ago?

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

A

Yeah. This is Dave. I would say the expectations between DTC and wholesale haven't changed very much. We haven't really updated that in the outlook that we've provided. But I would say that knowing that we've adjusted North America a little bit with our expectations around Q3 and Q4 orders, that is a little bit more wholesale skewed. So, from that perspective, you could probably back into DTC performing slightly better net-net for the full year that we expect and wholesale slightly worse on the full year than we expected 90 days back. But not a real big inflection there.

Xian Siew
Analyst, BNP Paribas Exane

Q

Okay. Got it. Helpful. And then, maybe could you talk a bit more about the strategy around team sports? You've been exiting some contracts with UCLA and now it's nice to see you renew the Notre Dame. But just how are you thinking about that overall and maybe within that, how you think about marketing as a percent of sales going forward? Thanks.

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

A

Yeah. Sure. Absolutely. Well, we are absolutely thrilled about our deal with Notre Dame and looking forward to a spectacular decade with the school in terms of outfitting their athletes for their 26 varsity sports, but what I'm particularly excited about in addition is the fact that we're going to be able to co-create with our athletes as we head more into Sportstyle, more access to the media assets of Notre Dame.

So, Under Armour is one of only a few brands in the world that has real authenticity on the field of play, the pitch, the court, you name it. So, we have this authenticity. And it's authenticated through great relationships like with schools like Notre Dame.

And you're going to see us also leaning into that relationship for collabs. We have an exciting collab coming up when Notre Dame plays USC basketball on the women's side in Paris later this year. No better place for a collab than Paris. I mentioned in my prepared remarks we're going to relaunch our renewed and improved version of HeatGear Compression when Notre Dame plays Navy, another great UA school in Dublin, later this summer. So, relationships with top sports programs at top universities is a big part of our strategy.

As it relates to marketing more broadly, our goal in marketing is to really hit that 16 to 24-year-old varsity team sport athlete. So, from a marketing perspective, that means continuing to double-down in terms of digital and social. It means more storytelling. It means better use of not just our teams, but our athletes in our marketing. It means doing a better job of product marketing. So, connecting brand marketing and product storytelling.

So, it's really being with an always-on highly digital marketing approach is really the key to how we're going to relate to that 16 to 24-year-old varsity team sport athlete.

Xian Siew
Analyst, BNP Paribas Exane

Q

Great. Thank you.

Operator: Thank you. One moment, please. Our next question comes from the line of Sharon Zackfia of William Blair. Your line is open.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Hi. Thanks for taking the question. Can you hear me?

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

A

Yes, we can, Sharon.

Sharon Zackfia
Analyst, William Blair & Co. LLC

Q

Awesome. Thanks for taking the question. I guess a follow-on on the marketing side of the equation. I know Women's is a huge opportunity for you and I'm wondering from a marketing and a door standpoint, how you can kind of better get in contact with that female consumer to show the elevated product that you've been putting out and get more traction there.

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

A

Absolutely. And good morning, Sharon. Yes, driving our Women's business is a very big focus for me and for the team and it does start with product. It starts with product that's always at the core of everything. On the Women's side and as we lean again into Sportstyle more broadly, it's about better design, it's about better fit, it's about better finishes and more in that better and best part of the product pyramid.

But you point out something very important. It's equally about how we market to the female consumer. And so, we're thinking about our marketing approach a bit differently. How we speak to the female consumer. Which athletes and/or social influencers, et cetera, that we use.

And then last but not least, you also highlighted distribution. Getting more into Sportstyle, Women, better and best product is going to open up new doors of distribution. So whether that's in the mall, specialty run, boutiques, we're going to have more product on more shelves, I think that will appeal to women and to men as well for that matter. But we definitely are focusing on harder on women than we ever have before and are excited about some of the things underway.

I mentioned just a moment ago the collab we're going to do in Paris later this year with the Women's basketball event at Notre Dame and USC. But we've got some other really exciting things underway that we're going to be launching later into this year and into next year.

Operator: Thank you. One moment, please. Our next question comes from the line of Geoff Lowery of Redburn. Your line is open.

Geoff Lowery
Analyst, Redburn (Europe) Ltd.

Q

Yeah, hi. Just one question, please, team. Could you talk a bit more about the international performance, and in particular, what's working between Apparel and Footwear together with your inventories in any of the major markets? And I guess actually maybe just a small part B, which is, is there a plan to take the Rewards program international or to the scale of the individual countries not justified at this point? Any color you could add around that would be great. Thank you very much.

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

A

Sure. And good morning. Yeah, we're very pleased with the momentum we're seeing in our international business. You think about, I'll start with EMEA where the team is just doing a fantastic job in both our own retail and with our wholesale partners. Very – a lot of discipline around segmentation, terrific relationship with the wholesale partners. The brands in EMEA, particularly in the UK and Germany, the Under Armour brand is in very elevated place both with Apparel and with Footwear, but particularly in Apparel. We're doing very well in international markets.

As I move to APAC, I think about we're also very strong in APAC. We're seen as the athlete's brand, kind of our brand positioning in APAC, again very premium. As we mentioned in our remarks growing both in EMEA and in APAC in DTC and with our wholesale partners. So we're excited about our growth in Asia and really see over the long-term China a big growth driver for us.

On the UA Rewards point, first of all, I am so excited that we launched UA Rewards about a little over a week ago here in the US. It's going to be the cornerstone of our consumer strategy. No loyalty program means anything if you don't have great products, so it goes back to product. But we're going to be investing in product and our Rewards program is going to allow us to, and I know this from my past life, drive higher revenue per customer, more repeat business, and higher direct channel engagement. So more stickiness to our website, our app, and our own store.

We are – we actually launched the loyalty program originally in Asia, and the program is off to a great start there in China specifically. And that's where we saw some of these early wins as it relates to higher revenue per customer, more repeat business, more direct channel engagement. We saw that with our program in China. So we're bringing it here to the US. It's – we're off to a great start. Our digital channels were out of gate first. Our retail stores later this summer as I mentioned.

And as it relates to expanding the Rewards program over time, that is absolutely something that we'll look to. Because again, it's – a Rewards program done well with product at the center and terrific marketing around it is going to be a growth driver for us. So more to come, but we're excited that we've got a great start here in the US and as I mentioned already in China.

Geoff Lowery
Analyst, Redburn (Europe) Ltd.

Q

Great. Thanks very much.

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

A

Dave, you have anything?

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

A

No, I think you covered it.

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

A

Next question, please? Operator? Operator, we can't hear you. Operator, are you there? I'm not sure if you guys can hear us or not. But we cannot hear the operator, so we must be experiencing technical difficulties. If you can give us one minute, we'll try to sort this.

Operator: Pardon me. This is the operator. Can you hear me?

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

A

We can now. Yes.

Operator: Okay. Our next question comes from Brian Nagel, Oppenheimer. Your line is open.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Good morning.

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

A

Thank you.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Thanks for taking my question. So the question I want to ask, just with respect to supply chain and shipping costs, you mentioned here is a positive for gross margins in the fiscal Q1, but how should we think about that dynamic over the next few quarters? I mean, kind of like a headwind to tailwind type shift, if you will.

And then to the extent that you do benefit like others will from lower shipping costs, less supply chain disruption, is it the mindset of Under Armour that you'll let that flow through, or would those savings be reinvested elsewhere?

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

A

So a couple things, Brian. This is Dave. Obviously a lot of us experienced some pretty challenged freight costs last year and even a little bit prior to that. So it's great to see those costs coming back in check and kind of getting to those pre-COVID levels. And so we are seeing the tailwind. We will – we expect to continue seeing that as a tailwind through the rest of this year.

And then, again, what's being added to that as we go further into the year especially our Q4 is some of the product costing negotiations with the vendors in addition to that. So kind of a two-part benefit that we're expecting to start see coming through even more so in our Q4.

Relative to how we deploy that, quite frankly, we are continuing to drive and focus on profitability. So whether it be in improving our gross margin, which we will continue to drive forward next year and beyond, or whether it will be continuing to move forward leveraging our SG&A next year, the majority of that we're going to be driving to the bottom line to profitability to our shareholders, but also strategically reinvesting in certain areas to make sure we're supporting our PTH3 strategic priority. So it's a little bit of both. Hopefully that helps you a little bit.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

No, that's very helpful. And then a follow-up question. I realize that this may be a bit repetitive, but we talked a lot about in this call and other calls about this improving product innovation at Under Armour. So I guess a two-part question. The first is, what innovation has been introduced now? How has that been performing? But then as we're watching, so to say, the product set of Under Armour continue to evolve, are there key points where we should be looking for more significant innovation coming from the brand?

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

A

Yeah, I'll start there. And good morning, Brian. So I think some of the areas where we continue to innovate would be with HOVR and Flow technology in our Footwear. I mentioned that we're going to be relaunching our HeatGear Compression this fall, the Notre Dame-Navy game we'll continue to have materials and fabrics in our Apparel that make our athletes more productive. So, so much of our work and product is around technology. I mentioned too around HOVR and Flow that you see in our shoes. So, we'll continue to do that.

As it relates to new innovation in the pipeline, we've got an amazing innovation team that is focused on what's next in Footwear and Apparel, so more to come on that front. But it's really about making products that athletes never knew that they needed and makes them much better at their sports.

I think SlipSpeed – one more thing – point to add, I think SlipSpeed is a great innovation and it was really insightful. It was looking at something that athletes really needed, a training shoe that they could use while they were in the gym and working out and that they could convert very easily to a live moment by slipping the heel down. So I think, SlipSpeed is an example of a recent innovation that has been quite successful and that we're going to continue to build upon as a franchise with the running shoe coming out later this year, the Mesh shoe that we already launched that's terrific for that tough summer workout. So I think SlipSpeed is another great example of product innovation. But that's what the brand is really all about.

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

A

Yeah, and, Brian, I think, as Stephanie talked about on the call, this – the idea of focusing on franchises in general, specifically within Apparel, specifically within product, and being able to link that kind of muscle back to the bone with how we go to market and drive brand heat, specifically to – with the PTH3 strategy, it's really key that we probably have done an inconsistent job in the past at having franchises where the consumer really associates religiously and with the brand, I mean, becomes evangelistic for us. So that's something we're really focused on right now. It takes time, but those franchises are important. The fact that we're coming out with the Curry 11 this fall is going to be fantastic for that franchise as well. But that's really where we're focused.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

I appreciate all the color. Thank you.

David Eric Bergman

Chief Financial Officer, Under Armour, Inc.

A

Thanks, Brian.

Operator: Thank you. One moment, please. Our next question comes from the line of Samuel Poser of Williams Trading. Your line is open.

Samuel Poser

Analyst, Williams Trading LLC

Q

Good morning. Thank you for taking my questions. I have a handful here. Will Jim, the new CMO, will he take his knowledge of defining banners, let's say the St. Regis versus Courtyard, to help define businesses within the organization? I mean, and how long will it take for that really to start manifesting itself, if that is the correct way to think about it?

Stephanie C. Linnartz

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

A

Sure. Well, Jim first of all is going to be an absolutely fantastic asset for the company. He comes with – I've worked with Jim for over 20 years – deep experience in sales, marketing, technology, operations, finance, you name and he's worked across the whole business. And he actually spent a lot of time in brand too to your question about building brands.

And I think, what Jim is going to bring to us is experience at knowing how brands or in the case of Under Armour underneath it, our umbrella of Under Armour, we've got Curry, we've got different franchises, how to really position them with consumers in a very clear, crisp way so you know what the value is.

Lance touched on this a minute ago in his remarks, like, really, really being able to do great products, franchise marketing and make each franchise very distinct with a distinct value proposition. He's going to pull that experience from Marriott International into this role.

I think, where Jim is going to add a ton of expertise also is with UA Digital. I mean, I have a real vision for our digital assets, our website, our app. They need to become the premium showcase for the brand. I mentioned earlier reducing overall promotional activity on the site, lifting ASPs. Jim really in his last role was responsible for amongst other things marriott.com and the Marriott app which both are best-in-class.

There's also a lot of tactical things on the digital front you need to do to have a world-class website and shop app, and we're doing those things and Jim is going to drive hard after more, but improving mobile site speed, better product descriptions. We're improving our cancel rates on our site by having improvements to order management system. This is kind of [ph] the guts (00:55:54) maybe a little bit of the behind the scenes work that needs to be done to have a world-class website and app, and Jim is so steeped and has so much experience in this area.

So I'm really, really thrilled that he started. He's only two weeks in and he's already hit the ground running, but building out those brands and those franchises for us absolutely, digital, marketing, and beyond. So, couldn't be more thrilled to have Jim with us.

Samuel Poser
Analyst, Williams Trading LLC

Q

Thank you. And then are you – with the US business, are you looking to narrow – I mean, is part of what's going on with the US business this year sort of an activity of getting the allocations and your points of distribution more narrow in order to set a base to grow it?

And then lastly, you talked a lot about some of the stuff you're doing with large, big teams, but I've noticed you've done some grassroots stuff in basketball with high school athletes and HBCU athletes as well. Can you talk a little bit about what you're doing sort of to stabilize US and then to grow it sort of in your own control versus not getting the orders you thought you were getting in wholesale for the back half?

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

A

Yeah. Let me start with the first part of the question about our US business. I think we really have an end strategy, meaning we have a strong $6 billion base of business we want to continue to grow. But we want to be much more consistent and disciplined about segmentation, so where we sell our product.

And as we again build out more of that better and best part of the product on – product pyramid, we're going to continue to be more and more disciplined. So, we're going to continue to grow our base. We're always going to be very, very mindful about what percentage of our business ends up in lower-end channels, but continue to build the higher end part of the product pyramid.

On the large team versus grassroots question, I talked about Notre Dame, which would be an example on the big team front, but grassroots is simultaneously at the heart of what we're doing at Under Armour. I spoke in my prepared remarks about UA Next. That's our youth-focused sports camp and we are doing a lot with – for example, we just wrapped up Curry Camp out West. We're going to have our Elite 24 basketball camp coming up in Atlanta. And connecting with youth athletes through these events is really, really critical.

And we do – you also mentioned HBCUs. We continue to invest there as well in terms of hitting that 16 to 24-year-old team sport athlete. So, I think our approach is twofold. It is – of course, we're going to focus on big athletes like Steph Curry and Jordan Spieth and Justin Jefferson and big teams like Notre Dame and Navy to name just a few, but then we're also going to focus on that youth athlete through our grassroot efforts. So, I'm super excited about that.

But, Dave, anything to add on the US business front?

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

A

No. I mean, I think that you've highlighted it fairly well. We're pretty comfortable with our distribution other than the fact that we know that there are some expansion opportunities in the better and best categories. There are some expansion opportunities relative to Sportstyle relative to Women's. And all of those should be a little bit more premium as well.

So, when you think about where our focus is and where a lot of the bigger opportunities are for growth in the US, whether it be on the DTC front or whether it be on some of the more premium wholesale distribution that will come along for the ride with our expansion in the Sportstyle and pushing more on the Women's front and the Footwear front, all that should play well together. And I think it's more about returning to growth and doing so in those stronger areas for us that are more premium for the brand.

Samuel Poser
Analyst, Williams Trading LLC

Q

Thank you very much.

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

A

Thanks.

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

A

Thanks, Sam.

Operator: Thank you. And now we'll take our last question from Matthew Boss of JPMorgan. Your line is open.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

So, Stephanie, as we consider the three pillars of Protect This House, maybe relative to the more challenging North America backdrop today, I guess can you just elaborate on the potential timeline that you see to return the brand to sustainable growth in North America and then how best to judge sequential progress of the actions along the way?

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

A

Sure. Absolutely. And good morning, Matt. As I've mentioned today and in our last call, we're really looking at fiscal year 2024 as a building year for the brand. We are absolutely certain that the PTH3 pillars are what we need to do to drive growth for the company, but they're not going to happen overnight. They're going to take some time. And it's a three-year plan. So, we're 1 quarter in to a 12-quarter game here. And I think we need to just stay focused on making progress every week, every month, every quarter.

I am really excited. We've had some big wins in the first quarter. I mentioned we signed Notre Dame. We launched UA Rewards. We had two terrific new executives start. We have some really exciting things on the product front, on new SlipSpeed, collabs coming with Justin Jefferson and when I said the collab coming with Stephen Curry, I didn't mention relaunch of Compression. So, we have a lot of wins in the first quarter and you're going to see us keep building quarter after quarter with wins.

With fiscal year 2024 being a year of building and then fiscal year 2025 and beyond being where you start to see the growth happen. But I can't underscore enough how focused we are on while we push on our pillars and these big product items, which have the most lead time as an example, we're going to be very, very focused on profitability, driving higher ASPs, SKU productivity, COGS improvement, et cetera.

So, I think we're going to march on quarter by quarter as we return Under Armour to growth in our home market here in the US.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

Great. And then, maybe a follow-up for Dave. Could you just elaborate on the state of active and sportswear inventory in the channel today, more so relative to three months ago, exactly where we stand? And then, just touch on the composition and quality of your owned inventory as well.

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

A

Sure, Matt. We have seen destocking from the retailers and their inventory levels appear to be getting healthier, which is good. So, we do feel better going into future seasons. And so, they are getting better.

But I would say that not necessarily as fast as we thought, which means we do expect to see some of the promotional environment sticking around a little bit longer. And I think, if you think about that from a timing perspective, we remain cautious around calendar Q4 or holiday, but we generally expect inventory levels coming more in balance towards the end of this calendar year. Still a little bit of uncertainty there, but obviously something that we're watching.

Relative to Under Armour's owned inventory and where we sit, we feel very comfortable with what we have. We have generally very healthy product. We don't have a lot of aged inventory within our warehouses. We've been normalizing against a really lean base and that's why you see these higher growth rates in the beginning of the year. But if you look at inventory turns, we're still very healthy. When you look at mix of inventory, we're still very healthy. And with the pack and hold strategy, you're going to start to see the inventory growth turn around. And that's where we were expecting to be able to land at the end of the year at a high teens decrease year-over-year.

So I think, we're doing a good job of balancing the promotional environment and discounting with moving through our inventory and making sure that we're buying the right inventory as we finish out this year and going to next year. So I think we're in a good spot to work from here as we go forward.

Matthew R. Boss
Analyst, JPMorgan Securities LLC

Q

That's great color. Best of luck.

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

A

Thanks, Matt.

Operator: Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.

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

Thank you, Heggy.